



**COMPASS HEALTH AND SUBSIDIARIES**

Consolidated Financial Statements

For the Year Ended June 30, 2018

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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, 2018, 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 1400  
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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 December 17, 2018 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 solely 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 the effectiveness of the Organization's 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 entity's internal control over financial reporting and compliance.

*Clark Nuber P.S.*

Certified Public Accountants  
December 17, 2018

**COMPASS HEALTH AND SUBSIDIARIES**

**Consolidated Statement of Financial Position  
June 30, 2018  
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,567,645	\$ 4,800,487
Current portion of restricted deposits and funded reserves (Note 3)		970,430
Deposits held in trust	976,934	1,009,532
Accounts receivable, net of allowance for doubtful accounts of \$4,864 (\$19,285 - 2017)	5,981,471	4,748,655
Grants and contracts receivable, net of allowance for doubtful amounts of \$56,694 (\$22,743 - 2017)	855,091	1,089,498
Current portion of facility contribution receivable (Note 12)	187,476	
Other receivables	149,575	146,345
Prepaid expenses and other current assets	611,375	914,946
<b>Total Current Assets</b>	<b>13,329,567</b>	<b>13,679,893</b>
Restricted deposits and funded reserves, net of current portion (Note 3)	287,768	275,868
Facility contribution receivable, less current portion (Note 12)	193,179	
Investments limited as to use (Notes 4 and 11)	886,431	828,927
Beneficial interest in trust	10,579	10,288
Property and equipment, net (Note 5)	24,570,877	24,441,883
<b>Total Assets</b>	<b>\$ 39,278,401</b>	<b>\$ 39,236,859</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 748,930	\$ 1,798,619
Accrued liabilities	3,805,355	3,526,980
Deferred revenue (Note 1)	1,960,045	1,883,762
Deposits held in trust	976,934	1,009,532
Current portion of capital lease obligations (Note 12)	602,796	468,307
Line of credit (Note 7)		500,000
Current portion of long-term debt (Note 7)	377,756	1,675,486
<b>Total Current Liabilities</b>	<b>8,471,816</b>	<b>10,862,686</b>
Capital lease obligations, less current portion (Note 12)	784,474	415,448
Long-term debt, less current portion (Note 7)	6,365,515	5,559,591
<b>Total Liabilities</b>	<b>15,621,805</b>	<b>16,837,725</b>
<b>Net Assets:</b>		
Unrestricted-		
Controlling interest	18,456,056	17,311,998
Noncontrolling interest	1,361,894	1,525,548
Total unrestricted	19,817,950	18,837,546
Temporarily restricted (Note 8)	3,552,158	3,275,100
Permanently restricted (Note 11)	286,488	286,488
<b>Total Net Assets</b>	<b>23,656,596</b>	<b>22,399,134</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 39,278,401</b>	<b>\$ 39,236,859</b>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Activities  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Operating Activities</b>					
<b>Support, Revenue and Gains:</b>					
Net patient service revenue	\$ 32,193,083	\$ -	\$ -	\$ 32,193,083	\$ 29,303,156
Capitation revenue	27,110,878			27,110,878	22,699,506
Contributions and grants	4,922,418	605,529		5,527,947	4,884,340
In-kind contributions	271,081	380,655		651,736	80,244
Rental revenue	1,614,244			1,614,244	1,461,516
Consultation revenue	86,291			86,291	83,050
Other	13,518			13,518	6,639
<b>Total Operating Support, Revenue and Gains</b>	<b>66,211,513</b>	<b>986,184</b>		<b>67,197,697</b>	<b>58,518,451</b>
Net assets released from restriction (Note 8)	393,359	(393,359)			
<b>Total Operating Support, Revenue, Gains and Releases</b>	<b>66,604,872</b>	<b>592,825</b>		<b>67,197,697</b>	<b>58,518,451</b>
<b>Expenses:</b>					
Program services-					
Crisis response	10,085,476			10,085,476	9,548,659
Mental health outpatient	23,871,675			23,871,675	22,101,307
Residential treatment	3,485,652			3,485,652	3,287,524
Housing	2,208,145			2,208,145	2,160,652
Inpatient	3,939,023			3,939,023	3,904,007
Intensive outpatient	4,692,694			4,692,694	4,119,531
Psychiatry	4,491,323			4,491,323	3,973,162
Other program services	3,835,438			3,835,438	3,297,710
Total program services	56,609,426			56,609,426	52,392,552
Supporting services-					
Management and general	7,179,327			7,179,327	5,821,335
Information services	1,453,516			1,453,516	1,302,989
Fundraising	634,192			634,192	461,067
Total supporting services	9,267,035			9,267,035	7,585,391
<b>Total Operating Expenses</b>	<b>65,876,461</b>			<b>65,876,461</b>	<b>59,977,943</b>
<b>Change in Net Assets From Operating Activities</b>	<b>728,411</b>	<b>592,825</b>		<b>1,321,236</b>	<b>(1,459,492)</b>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Activities (Continued)  
 For the Year Ended June 30, 2018  
 (With Comparative Totals for 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Nonoperating Activities</b>					
Dividends and interest (Note 4)	\$ 9,728	\$ 28,043	\$ -	\$ 37,771	\$ 33,178
Loss on disposal of fixed assets	(131,443)			(131,443)	(27,135)
Interest income	437			437	664
<b>Change in Net Assets From Nonoperating Activities</b>	<b>(121,278)</b>	<b>28,043</b>		<b>(93,235)</b>	<b>6,707</b>
<b>Excess (Deficiency) of Support, Revenues and Gains Over (Under) Expenses</b>	<b>607,133</b>	<b>620,868</b>		<b>1,228,001</b>	<b>(1,452,785)</b>
Realized and unrealized investment gains (Note 4)		29,461		29,461	56,395
Release of restricted net assets related to long-term assets (Note 8)	373,271	(373,271)			
<b>Total Change in Net Assets</b>	<b>980,404</b>	<b>277,058</b>		<b>1,257,462</b>	<b>(1,396,390)</b>
Noncontrolling interest in net losses of subsidiaries	163,654			163,654	170,259
<b>Total Change in Net Assets Excluding Noncontrolling Interest</b>	<b>\$ 1,144,058</b>	<b>\$ 277,058</b>	<b>\$ -</b>	<b>\$ 1,421,116</b>	<b>\$ (1,226,131)</b>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Changes in Net Assets  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	Unrestricted			Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
	Controlling Interest	Noncontrolling Interest	Total				
Beginning of year, net assets	\$ 17,311,998	\$ 1,525,548	\$ 18,837,546	\$ 3,275,100	\$ 286,488	\$ 22,399,134	\$ 23,795,524
Change in net assets excluding noncontrolling interest	1,144,058		1,144,058	277,058		1,421,116	(1,226,131)
Change in net assets from noncontrolling interest		(163,654)	(163,654)			(163,654)	(170,259)
<b>Total Change in Net Assets</b>	<b>1,144,058</b>	<b>(163,654)</b>	<b>980,404</b>	<b>277,058</b>		<b>1,257,462</b>	<b>(1,396,390)</b>
<b>End of Year, Net Assets</b>	<b>\$ 18,456,056</b>	<b>\$ 1,361,894</b>	<b>\$ 19,817,950</b>	<b>\$ 3,552,158</b>	<b>\$ 286,488</b>	<b>\$ 23,656,596</b>	<b>\$ 22,399,134</b>

See accompanying notes.



COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,257,462	\$ (1,396,390)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	2,037,367	1,871,839
Debt issuance costs amortization	8,897	8,794
Facility contribution receivable	(380,655)	193,179
Realized and unrealized investment gains	(29,461)	(56,395)
Loss on disposal of fixed assets	131,443	27,135
Changes in assets and liabilities:		
Accounts receivable	(1,232,816)	1,213,165
Grants and contracts receivable	234,407	(475,382)
Other receivables	(3,230)	49,561
Prepaid expenses and other assets	303,280	71,950
Accounts payable and accrued liabilities	(771,314)	1,279,739
Deferred revenue	76,283	(64,385)
<b>Net Cash Provided by Operating Activities</b>	<b>1,631,663</b>	<b>2,722,810</b>
<b>Cash Flows From Investing Activities:</b>		
Acquisition of property and equipment	(2,297,804)	(1,163,609)
Net withdrawals from (deposits to) restricted deposits and funded reserves	958,530	(991,681)
Purchases of investments	(1,705,070)	(1,381,938)
Proceeds from sale of investments	1,677,027	1,354,232
<b>Net Cash Used by Investing Activities</b>	<b>(1,367,317)</b>	<b>(2,182,996)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from capital lease obligations	1,111,491	227,753
Repayment of capital lease obligations	(607,976)	(528,442)
Proceeds from issuance of long-term debt	1,065,660	1,470,430
Principal payments on long-term debt	(1,566,363)	(1,743,814)
Net activity on lines of credit	(500,000)	500,000
<b>Net Cash Used by Financing Activities</b>	<b>(497,188)</b>	<b>(74,073)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(232,842)</b>	<b>465,741</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	4,800,487	4,334,746
<b>End of Year</b>	<b>\$ 4,567,645</b>	<b>\$ 4,800,487</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 336,798	\$ 368,687
Fixed asset purchases included in accounts payable at year end	\$ 7,000	\$ 34,291
Acquisition of equipment under capital lease obligations	\$ 1,111,491	\$ 227,753

See accompanying notes.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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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, Compass Health Broadway PSH, LLLP, Counterpoint Commons, Harmony House North Association and Mental Health Services of Snohomish County II.

Compass Health is a charitable corporation formed in the State of Washington 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.

Compass Health Broadway PSH, LLLP (CHB) was formed as a limited liability limited partnership under the laws of the State of Washington in 2018. CHB is reported as a consolidated entity of Compass Health due to the control Compass Health has over CHB as its general partner.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

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.

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. 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.

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, 2018 and 2017.

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.

**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, 2018 (With Comparative Totals for 2017)

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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, 2018, the Organization had 15 housing units; 167 beds throughout Snohomish, Skagit and Island counties. In addition, the Organization master leases 2 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, home health, 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 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, 2018 (With Comparative Totals for 2017)

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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, 2017, from which the summarized information was derived.

**Cash and Cash Equivalents** - 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, 2018 and 2017, the Organization estimated the contractual adjustments on outstanding accounts receivable to be \$16,816 and \$93,841, respectively.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

**Bond Issue Costs** - Bond issue costs are recorded as a deduction to the related debt liability on the consolidated statement of financial position. Financing costs are amortized over the term of the applicable debt using the effective yield method. Amortization expense was \$8,897 and \$8,794 for the years ended June 30, 2018 and 2017, 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	5 - 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, 2018 and 2017, deferred revenue included \$1,725,589 received from the North Sound Behavioral Health Organization (NSBHO) as an advanced payment against the December 2018 contract activity and was provided to the Organization to offset the impact of the NSBHO 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 consolidated 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, contributions and grants restricted for the acquisition of long-term assets 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 net assets which are excluded from the performance indicator, 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, permanently restricted contributions, 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).

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

**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, 2018 and 2017.

**Concentrations** - The Organization is partly funded under fee for service contracts with NSBHO, and other governmental agencies. For the years ended June 30, 2018 and 2017, revenues related to the NSBHO accounted for approximately 85% and 86% of total operating support, revenue and gains, 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 accounts receivable from patients and third-party payors at June 30, was as follows:

	<u>2018</u>	<u>2017</u>
NSBHO	95%	92%
Other third party payors	4%	7%
Medicare	<u>1%</u>	<u>1%</u>
	<u><b>100%</b></u>	<u><b>100%</b></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.

**Collective Bargaining** - The Organization has negotiated a collective bargaining agreement (the Agreement) with the Service Employees International Union 1199NW which expires on March 31, 2019. Approximately 58% and 65% of the Organization's employees are covered under the Agreement during the years ended June 30, 2018 and 2017, respectively.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

**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. MPA and CHB are limited partnerships. 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.

**Subsequent Events** - The Organization has evaluated subsequent events through December 17, 2018, 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:

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% of the established PFS rate, with the beneficiary being responsible for the remaining 20% representing a co-pay.

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.



## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### 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>2018</u>	<u>2017</u>
Operating reserves	\$ 107,721	\$ 105,247
Capital reserves	172,547	170,621
Debt reserve (Note 7)	<u>7,500</u>	<u>970,430</u>
Total restricted deposits and funded reserves	287,768	1,246,298
Less current portion		<u>(970,430)</u>
<b>Total Restricted Deposits and Funded Reserves, Net of Current Portion</b>	<b><u>\$ 287,768</u></b>	<b><u>\$ 275,868</u></b>

#### 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 and exchange-traded 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, 2018 and 2017.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

Note 4 - Continued

Fair values of assets measured on a recurring basis were as follows at June 30, 2018:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Mutual funds and exchange-traded funds-				
Domestic equity	\$ 410,162	\$ -	\$ -	\$ 410,162
International equity	201,280			201,280
Bonds	255,971			255,971
<b>Total Mutual Funds and Exchange-Traded Funds at Fair Value</b>	<b>\$ 867,413</b>	<b>\$ -</b>	<b>\$ -</b>	<b>867,413</b>
Money market				19,018
<b>Total Investments at Fair Value</b>				<b>\$ 886,431</b>

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

	2018	2017
Dividends and interest	\$ 37,771	\$ 33,178
Realized and unrealized investment gains	29,461	56,395
<b>Total Investment Returns</b>	<b>\$ 67,232</b>	<b>\$ 89,573</b>

Note 5 - Property and Equipment

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

	2018	2017
Land	\$ 4,650,348	\$ 4,650,348
Leasehold improvements	2,599,245	2,062,372
Buildings and improvements	28,244,219	28,521,809
Projects in progress	258,224	758,630
Furniture and equipment	7,807,597	5,584,872
Vehicles	221,404	153,328
	43,781,037	41,731,359
Less accumulated depreciation	(19,210,160)	(17,289,476)
<b>Total Property and Equipment, Net</b>	<b>\$ 24,570,877</b>	<b>\$ 24,441,883</b>

Projects in progress at June 30, 2018 and 2017 consisted of various building and system improvement projects.

For the years ended June 30, 2018 and 2017, depreciation expense was \$2,037,367 and \$1,871,839, respectively.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

#### 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 \$0 and \$22,425 which are included in accrued liabilities in the consolidated statement of financial position at June 30, 2018 and 2017, respectively.

#### Note 7 - Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
<u>Compass Health:</u>		
Note payable to Washington Community Reinvestment Association in monthly payments of \$5,386, including interest at 5%. The note matures in April 2038 and is collateralized by the 3315 Lombard Avenue, Everett, WA property.	\$ 997,592	\$ -
Series 2002 Washington Health Care Facilities Authority Bonds (privately placed) payable in monthly installments of \$11,449, including fixed interest at 3.02%, due monthly through May 21, 2022. The bonds are collateralized by property at 3322 Broadway in Everett, WA and 3320 173rd Place NE in Arlington, WA. The Organization is required to comply with restrictive covenants contained in the bond agreement. The Organization was in compliance with the covenants as of June 30, 2018.	440,930	545,304
Note payable to a bank at a variable interest rate with payments that are variable based on the current interest rate. Interest rate and monthly payment at June 30, 2018, was 7.375% and \$3,492, respectively. The note matures June 2023 and is collateralized by the Alder Commons property.	406,365	417,431
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.	400,780	412,643
Note payable to the Washington State Department of Commerce payable in annual installments of \$8,948, including fixed interest of 1.00%. The note matures January 2049 and is collateralized by the Haven House property.	237,492	244,000
Note payable to Washington Community Reinvestment Association 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.	222,586	227,423

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

Note 7 - Continued

	<u>2018</u>	<u>2017</u>
<u>Compass Health (Continued):</u>		
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.	140,205	142,285
Note payable to a bank in monthly payments of \$1,337, including interest at a variable rate (5.09% at June 30, 2018). The note matures April 2029. Collateralized by the 3645 E McLeod Rd, Bellingham, WA property.	135,271	144,185
Noninterest bearing note payable to the State of Washington. At June 30, 2018 principal payment is due upon demand. Collateralized by the 1604 I Street, Bellingham, WA property.	112,500	112,500
Note payable to a bank in monthly payments of \$1,015, including interest at a variable rate (5.09% at June 30, 2018). The note matures April 2029. Collateralized by the 1604 I Street, Bellingham, WA property.	102,425	109,196
Noninterest bearing note payable to a bank. Principal due at maturity on April 1, 2020. Collateralized by the 3322 Broadway, Everett, WA property.	65,660	
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 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
Note payable to a bank with a variable interest rate. Interest rate at June 30, 2017 was 3.50%. Principal was paid upon maturity in November 2017.		970,430

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

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Note 7 - Continued

	<u>2018</u>	<u>2017</u>
<u>Compass Health (Continued):</u>		
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. The bonds are collateralized by energy efficiency improvements made on the Compass Health Bailey Center. Principal was paid upon maturity in July 2017.		359,414
<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	100,458
<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 the 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.	1,096,897	1,130,509
<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.	472,131	489,891

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

Note 7 - Continued

	<u>2018</u>	<u>2017</u>
<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.	<u>762,140</u>	<u>788,466</u>
Total debt obligations	6,817,748	7,318,451
Less unamortized debt issuance costs	(74,477)	(83,374)
Less current portion	<u>(377,756)</u>	<u>(1,675,486)</u>
<b>Total Debt, Net of Current Portion</b>	<b><u>\$ 6,365,515</u></b>	<b><u>\$ 5,559,591</u></b>

Principal maturities of long-term debt are as follows:

For the Year Ending June 30,

2019	\$ 377,756
2020	272,351
2021	285,208
2022	288,719
2023	527,126
Thereafter	<u>5,066,588</u>
	<b><u>\$ 6,817,748</u></b>

The Organization had a \$1,250,000 line of credit with a financial institution which matured on January 1, 2018 at which point the principal balance was paid in full. The Organization opened a \$3,500,000 line of credit with another financial institution on January 25, 2018. Borrowing under this line bears interest at the prime rate (5.25% as of June 30, 2018). There were no draws on this line during the year ended June 30, 2018.

The Organization has multiple very low interest or noninterest bearing notes held by governmental agencies. The Organization has elected not to recognize the in-kind contribution on these notes as interest rates are set by the governmental agencies and are representative of the conditions placed on the related notes, resulting in the interest rates not being considered below market due to the additional conditions.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

**Note 8 - Temporarily Restricted Net Assets**

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

	<u>2018</u>	<u>2017</u>
Operating-		
Restricted for program services	\$ 672,025	\$ 502,137
Time restricted	43,580	20,900
Time restricted endowment accumulated earnings (Note 11)	599,943	542,439
Facility contribution receivable (Note 12)	380,655	
Nonoperating-		
Secure the future	18,036	20,036
Acquisition of fixed assets	19,103	53,763
Forgivable loans (Note 9)	<u>1,818,816</u>	<u>2,135,825</u>
	<u><b>\$ 3,552,158</b></u>	<u><b>\$ 3,275,100</b></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 as follows:

	<u>2018</u>	<u>2017</u>
Operating-		
Released for program expenses	\$ 372,459	\$ 295,697
Time restricted	20,900	16,500
Facility contribution receivable (Note 12)		<u>193,179</u>
<b>Net Assets Released (Operating)</b>	<u><b>\$ 393,359</b></u>	<u><b>\$ 505,376</b></u>
Nonoperating-		
Secure the future	\$ 2,000	\$ 150,670
Acquisition of fixed assets	54,263	
Amortization of forgivable loans	<u>317,008</u>	<u>398,481</u>
<b>Net Assets Released (Nonoperating)</b>	<u><b>\$ 373,271</b></u>	<u><b>\$ 549,151</b></u>

**COMPASS HEALTH AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)**

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**Note 9 - Forgivable Loans**

The Organization received forgivable loan proceeds of \$5,759,225 through the year ended June 30, 2018. 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, 2018, the Organization is in compliance with the restrictions.

Remaining restricted balances on forgivable loans for the years ended June 30 were as follows:

	<u>2018</u>	<u>2017</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.	\$ 443,813	\$ 460,885
Capital advances from HUD with an original amount of \$760,500. Under the 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 April 1, 2036. The forgivable capital advances are secured by the property at those sites.	361,238	380,250
Capital advance from the Washington State Department of Commerce with an original amount totaling \$1,616,875. The capital advances are due and payable if property is not used through August 2019 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.	189,228	351,423
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 June 2050 provided the property is used to house the chronically mentally ill. Collateralized by the Haven House property.	125,000	129,000
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.	119,413	122,548



COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

Note 9 - Continued

	<u>2018</u>	<u>2017</u>
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$250,000. 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.	100,672	110,575
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.	96,179	98,704
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.	70,975	72,838
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.	51,367	55,967
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.	50,272	51,545
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.	49,306	50,897
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.	48,585	50,260

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

Note 9 - Continued

	<u>2018</u>	<u>2017</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 property.	43,393	46,148
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.	41,535	43,001
Capital advance from the Washington State Department of Commerce with an original amount totaling \$83,000. Under the 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 November 1, 2031. The forgivable capital advance is secured by the property at Harmony House North.	27,840	29,915
Capital advances from Snohomish County passed through from HUD with original amounts totaling \$974,000. The capital advance was noninterest bearing and was forgiven in December 2017.		72,574
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$231,628. The note was noninterest bearing and was forgiven in December 2017. Collateralized by the Camellia property.		5,791
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$75,000. The note was noninterest bearing and was forgiven in December 2017. Collateralized by the Camellia property.		1,875
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$65,172. The note was noninterest bearing and was forgiven in December 2017. Collateralized by the Camellia property.		1,629
	<u>\$ 1,818,816</u>	<u>\$ 2,135,825</u>

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 10 - Employee Benefit Plans

The Organization sponsors a 403(b) Tax Deferred Annuity plan (the Plan) covering all eligible employees. Eligible employees include all employees of the Organization other than those covered under the collective bargaining agreement. The Organization matches 100% of the first 2% of contributions made by the participants. The Organization also makes a nonelective contribution equal to 3% of each participant's eligible compensation. Retirement plan expense was \$1,355,447 and \$1,075,004 for the years ended June 30, 2018 and 2017, 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 and exchange-traded funds that are included in investments at June 30, 2018 and 2017.

**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.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

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Note 11 - Continued

**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, 2018 and 2017, 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>2018 Total</u>	<u>2017 Total</u>
Endowment to fund operating reserves	\$ -	\$ 599,943	\$ 286,488	\$ 886,431	\$ 828,927

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>2018 Total</u>	<u>2017 Total</u>
Endowment net assets beginning of year	\$ -	\$ 542,439	\$ 286,488	\$ 828,927	\$ 749,540
Investment returns		<u>57,504</u>		<u>57,504</u>	<u>79,387</u>
<b>Endowment Net Assets, End of Year</b>	<u>\$ -</u>	<u>\$ 599,943</u>	<u>\$ 286,488</u>	<u>\$ 886,431</u>	<u>\$ 828,927</u>

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 12 - Leases

**Operating Lease** - The Organization leases facilities under cancelable and noncancelable lease agreements. The facilities are mostly leased on a month-to-month basis with governmental and not-for-profit organizations. Future minimum lease payments under noncancelable leases are as follows:

For the Year Ending June 30,

2019	\$	327,320
2020		311,072
2021		244,021
2022		225,679
2023		134,507
Thereafter		<u>114,714</u>
<b>Total Minimum Future Rental Payments</b>	<b>\$</b>	<b><u>1,357,313</u></b>

For the years ended June 30, 2018 and 2017, rental expense under these arrangements was \$1,261,187 and \$1,370,700, respectively.

**Capital Leases** - The Organization acquired equipment and software licenses under capital lease arrangements extending through 2022 with a combined capitalized cost and accumulated depreciation of \$2,069,720 and \$825,791, respectively at June 30, 2018.

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,

2019	\$	645,321
2020		513,838
2021		295,930
2022		<u>242</u>
Total minimum lease payments		1,455,331
Less amount representing interest		<u>(68,061)</u>
Present value of net minimum lease payments		1,387,270
Less current portion		<u>(602,796)</u>
	<b>\$</b>	<b><u>784,474</u></b>

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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#### Note 12 - Continued

**Contributed Facilities** - The Organization leases a facility located in Bellingham, Washington from Whatcom County expiring in 2020 with an option to renew for four (4) consecutive three year periods. Under terms of the lease, the Organization shall pay Whatcom County \$10 annually. The difference between the fair market value of the lease and the required payments is considered contributed facilities.

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, 2018 was \$380,655.

#### Note 13 - Bailey Center Campus Redevelopment

During the year ended June 30, 2018 Compass Health formed Compass Health Broadway PSH, LLLP as a limited liability limited partnership for the purpose of developing a portion of the Bailey property into an 82-unit residential complex. As of June 30, 2018, Compass Health had included in projects in process approximately \$167,000 of costs associated with the development of the project. Subsequent to June 30, 2018, Compass Health entered into architectural and construction commitments totaling \$1,300,000.

**SUPPLEMENTARY INFORMATION**

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets  
 June 30, 2018  
 (With Comparative Totals for 2017)

	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 2018 Total	Consolidated 2017 Total
<b>Assets</b>												
<b>Current Assets:</b>												
Cash and cash equivalents	\$ 3,822,747	\$ (81)	\$ 731,564	\$ 608	\$ 8,627	\$ 951	\$ 1,615	\$ 1,614	\$ 4,567,645	\$ -	\$ 4,567,645	\$ 4,800,487
Current portion of restricted deposits and funded reserves												970,430
Deposits held in trust	962,234	3,225		3,000	2,364	2,143	3,574	3,619	980,159	(3,225)	976,934	1,009,532
Accounts receivable, net	5,979,542					1,576	353		5,981,471		5,981,471	4,748,655
Grants and contracts receivable, net	812,506		122,867	3,655	1,954			78	941,060	(85,969)	855,091	1,089,498
Current portion of facility contribution receivable	187,476								187,476		187,476	
Other receivables	119,261		37,580						156,841	(7,266)	149,575	146,345
Current portion of notes receivable	202,094								202,094	(202,094)		
Prepaid expenses and other current assets	608,526	9,416	27,301		368				645,611	(34,236)	611,375	914,946
<b>Total Current Assets</b>	<b>12,694,386</b>	<b>12,560</b>	<b>919,312</b>	<b>7,263</b>	<b>13,313</b>	<b>4,670</b>	<b>5,542</b>	<b>5,311</b>	<b>13,662,357</b>	<b>(332,790)</b>	<b>13,329,567</b>	<b>13,679,893</b>
Restricted deposits and funded reserves, net of current portion	7,500			64,919	87,000	70,000	44,724	13,625	287,768		287,768	275,868
Facility contribution receivable, less current portion	193,179								193,179		193,179	
Investments limited as to use	886,431								886,431		886,431	828,927
Beneficial interest in trust	10,579								10,579		10,579	10,288
Property and equipment, net	13,384,431	1,788,937	3,771,366	1,286,122	2,378,802	501,965	499,723	959,531	24,570,877		24,570,877	24,441,883
Notes receivable, less current portion	668,308								668,308	(668,308)		
Inter-agency accounts	497,600								497,600	(497,600)		
<b>Total Assets</b>	<b>\$ 28,342,414</b>	<b>\$ 1,801,497</b>	<b>\$ 4,690,678</b>	<b>\$ 1,358,304</b>	<b>\$ 2,479,115</b>	<b>\$ 576,635</b>	<b>\$ 549,989</b>	<b>\$ 978,467</b>	<b>\$ 40,777,099</b>	<b>\$ (1,498,698)</b>	<b>\$ 39,278,401</b>	<b>\$ 39,236,859</b>

See independent auditor's report.



COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Financial Position - Liabilities and Net Assets  
 June 30, 2018  
 (With Comparative Totals for 2017)

	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 2018 Total	Consolidated 2017 Total
<b>Liabilities and Net Assets</b>												
<b>Current Liabilities:</b>												
Accounts payable	\$ 695,610	\$ 91	\$ 66,737	\$ 144,386	\$ 138,124	\$ 13,367	\$ 62,815	\$ 48,612	\$ 1,169,742	\$ (420,812)	\$ 748,930	\$ 1,798,619
Accrued liabilities	3,768,959		2,971	34,869	100		5,716		3,812,615	(7,260)	3,805,355	3,526,980
Deferred revenue	1,959,387	34,236		318	165	66		109	1,994,281	(34,236)	1,960,045	1,883,762
Deposits held in trust	962,234	3,225		3,000	2,364	2,143	3,574	3,619	980,159	(3,225)	976,934	1,009,532
Current portion of capital lease obligations	602,796								602,796		602,796	468,307
Line of credit												500,000
Current portion of long-term debt	294,918		34,736	108,833			28,796	19,306	486,589	(108,833)	377,756	1,675,486
<b>Total Current Liabilities</b>	<b>8,283,904</b>	<b>37,552</b>	<b>104,444</b>	<b>291,406</b>	<b>140,753</b>	<b>15,576</b>	<b>100,901</b>	<b>71,646</b>	<b>9,046,182</b>	<b>(574,366)</b>	<b>8,471,816</b>	<b>10,862,686</b>
Capital lease obligations, less current portion	784,474								784,474		784,474	415,448
Long-term debt, less current portion	3,074,760		1,043,516	493,970	1,039,405	217,388	805,220	452,825	7,127,084	(761,569)	6,365,515	5,559,591
<b>Total Liabilities</b>	<b>12,143,138</b>	<b>37,552</b>	<b>1,147,960</b>	<b>785,376</b>	<b>1,180,158</b>	<b>232,964</b>	<b>906,121</b>	<b>524,471</b>	<b>16,957,740</b>	<b>(1,335,935)</b>	<b>15,621,805</b>	<b>16,837,725</b>
<b>Net Assets and Equity:</b>												
Unrestricted-												
Controlling interest	13,159,002	1,763,945	3,182,008			(66,151)	(356,132)	426,156	18,108,828	347,228	18,456,056	17,311,998
Noncontrolling interest										1,361,894	1,361,894	1,525,548
Total unrestricted	13,159,002	1,763,945	3,182,008			(66,151)	(356,132)	426,156	18,108,828	1,709,122	19,817,950	18,837,546
Temporarily restricted	2,753,786		360,710			409,822		27,840	3,552,158		3,552,158	3,275,100
Permanently restricted	286,488								286,488		286,488	286,488
Total net assets	16,199,276	1,763,945	3,542,718			343,671	(356,132)	453,996	21,947,474	1,709,122	23,656,596	22,399,134
Owners' equity				572,928	1,298,957				1,871,885	(1,871,885)		
<b>Total Net Assets and Equity</b>	<b>16,199,276</b>	<b>1,763,945</b>	<b>3,542,718</b>	<b>572,928</b>	<b>1,298,957</b>	<b>343,671</b>	<b>(356,132)</b>	<b>453,996</b>	<b>23,819,359</b>	<b>(162,763)</b>	<b>23,656,596</b>	<b>22,399,134</b>
<b>Total Liabilities, Net Assets and Equity</b>	<b>\$ 28,342,414</b>	<b>\$ 1,801,497</b>	<b>\$ 4,690,678</b>	<b>\$ 1,358,304</b>	<b>\$ 2,479,115</b>	<b>\$ 576,635</b>	<b>\$ 549,989</b>	<b>\$ 978,467</b>	<b>\$ 40,777,099</b>	<b>\$ (1,498,698)</b>	<b>\$ 39,278,401</b>	<b>\$ 39,236,859</b>

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Activities  
June 30, 2018  
(With Comparative Totals for 2017)

	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 2018	Consolidated Total 2017
<b>Operating Activities</b>												
<b>Unrestricted Public Support and Revenue:</b>												
Net patient service revenue	\$ 32,193,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,193,083	\$ -	\$ 32,193,083	\$ 29,303,156
Capitation revenue	27,110,878								27,110,878		27,110,878	22,699,506
Contributions and grants	4,090,865		789,927		41,626				4,922,418		4,922,418	4,431,825
In-kind contributions	203,673		67,408						271,081		271,081	80,244
Rental revenue	676,980	307,012	197,131	114,992	84,123	119,552	279,387	155,721	1,934,898	(320,654)	1,614,244	1,461,516
Consultation revenue	702,221								702,221	(615,930)	86,291	83,050
Other			3,669			2,636	6,718	495	13,518		13,518	6,639
<b>Total Unrestricted Support and Revenue</b>	<b>64,977,700</b>	<b>307,012</b>	<b>1,058,135</b>	<b>114,992</b>	<b>125,749</b>	<b>122,188</b>	<b>286,105</b>	<b>156,216</b>	<b>67,148,097</b>	<b>(936,584)</b>	<b>66,211,513</b>	<b>58,065,936</b>
Net assets released from restriction	352,799		40,560						393,359		393,359	505,376
<b>Total Unrestricted Support, Revenue, and Releases</b>	<b>65,330,499</b>	<b>307,012</b>	<b>1,098,695</b>	<b>114,992</b>	<b>125,749</b>	<b>122,188</b>	<b>286,105</b>	<b>156,216</b>	<b>67,541,456</b>	<b>(936,584)</b>	<b>66,604,872</b>	<b>58,571,312</b>
<b>Expenses:</b>												
<b>Program services-</b>												
Crisis response	10,088,355	10,387							10,098,742	(13,266)	10,085,476	9,548,659
Mental health outpatient	24,090,730	214,938							24,305,668	(433,993)	23,871,675	22,101,307
Residential treatment	3,485,652								3,485,652		3,485,652	3,287,524
Housing	1,554,896	7,384		165,696	209,663	79,023	184,225	123,009	2,323,896	(115,751)	2,208,145	2,160,652
Inpatient	3,939,023								3,939,023		3,939,023	3,904,007
Intensive outpatient	4,683,089	9,605							4,692,694		4,692,694	4,119,531
Psychiatry	4,501,696	18,434							4,520,130	(28,807)	4,491,323	3,973,162
Other program services	3,269,346	2,419	830,376						4,102,141	(266,703)	3,835,438	3,297,710
<b>Total program services</b>	<b>55,612,787</b>	<b>263,167</b>	<b>830,376</b>	<b>165,696</b>	<b>209,663</b>	<b>79,023</b>	<b>184,225</b>	<b>123,009</b>	<b>57,467,946</b>	<b>(858,520)</b>	<b>56,609,426</b>	<b>52,392,552</b>
<b>Supporting services-</b>												
Management and general	6,958,923	33,832	57,317	11,325	9,670	52,785	72,658	59,484	7,255,994	(76,667)	7,179,327	5,821,335
Information services	1,451,848	1,668							1,453,516		1,453,516	1,302,989
Fundraising	557,430	1,715	158,383						717,528	(83,336)	634,192	461,067
<b>Total supporting services</b>	<b>8,968,201</b>	<b>37,215</b>	<b>215,700</b>	<b>11,325</b>	<b>9,670</b>	<b>52,785</b>	<b>72,658</b>	<b>59,484</b>	<b>9,427,038</b>	<b>(160,003)</b>	<b>9,267,035</b>	<b>7,585,391</b>
<b>Total Expenses</b>	<b>64,580,988</b>	<b>300,382</b>	<b>1,046,076</b>	<b>177,021</b>	<b>219,333</b>	<b>131,808</b>	<b>256,883</b>	<b>182,493</b>	<b>66,894,984</b>	<b>(1,018,523)</b>	<b>65,876,461</b>	<b>59,977,943</b>
<b>Change in Net Assets From Unrestricted Operating Activities</b>	<b>749,511</b>	<b>6,630</b>	<b>52,619</b>	<b>(62,029)</b>	<b>(93,584)</b>	<b>(9,620)</b>	<b>29,222</b>	<b>(26,277)</b>	<b>646,472</b>	<b>81,939</b>	<b>728,411</b>	<b>(1,406,631)</b>

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Activities (Continued)  
 June 30, 2018  
 (With Comparative Totals for 2017)

	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 2018	Consolidated Total 2017
<b>Unrestricted Nonoperating Activities</b>												
Dividends and interest	\$ 9,728	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,728	\$ -	\$ 9,728	\$ 10,186
Loss on sale of fixed assets	(123,023)			(8,420)					(131,443)		(131,443)	(27,135)
Interest income	4,247	3		131	169				4,550	(4,113)	437	664
Release of restricted net assets related to long-term assets	59,476		291,032			20,688		2,075	373,271		373,271	549,151
<b>Change in Net Assets From Unrestricted Nonoperating Activities</b>	<b>(49,572)</b>	<b>3</b>	<b>291,032</b>	<b>(8,289)</b>	<b>169</b>	<b>20,688</b>		<b>2,075</b>	<b>256,106</b>	<b>(4,113)</b>	<b>251,993</b>	<b>532,866</b>
<b>Change in Unrestricted Net Assets</b>	<b>699,939</b>	<b>6,633</b>	<b>343,651</b>	<b>(70,318)</b>	<b>(93,415)</b>	<b>11,068</b>	<b>29,222</b>	<b>(24,202)</b>	<b>902,578</b>	<b>77,826</b>	<b>980,404</b>	<b>(873,765)</b>
<b>Temporarily Restricted Net Assets</b>												
Contributions for program services	461,954		143,575						605,529		605,529	452,515
In-kind rent contribution	380,655								380,655		380,655	
Dividends and interest	28,043								28,043		28,043	22,992
Realized and unrealized investment gains	29,461								29,461		29,461	56,395
Release of restricted net assets	(412,275)		(331,592)			(20,688)		(2,075)	(766,630)		(766,630)	(1,054,527)
<b>Change in Temporarily Restricted Net Assets</b>	<b>487,838</b>		<b>(188,017)</b>			<b>(20,688)</b>		<b>(2,075)</b>	<b>277,058</b>		<b>277,058</b>	<b>(522,625)</b>
<b>Change in Net Assets Before Noncontrolling Interest</b>	<b>1,187,777</b>	<b>6,633</b>	<b>155,634</b>	<b>(70,318)</b>	<b>(93,415)</b>	<b>(9,620)</b>	<b>29,222</b>	<b>(26,277)</b>	<b>1,179,636</b>	<b>77,826</b>	<b>1,257,462</b>	<b>(1,396,390)</b>
Noncontrolling interest in net losses of subsidiaries										163,654	163,654	170,259
<b>Change in Net Assets Excluding Noncontrolling Interest</b>	<b>\$ 1,187,777</b>	<b>\$ 6,633</b>	<b>\$ 155,634</b>	<b>\$ (70,318)</b>	<b>\$ (93,415)</b>	<b>\$ (9,620)</b>	<b>\$ 29,222</b>	<b>\$ (26,277)</b>	<b>\$ 1,179,636</b>	<b>\$ 241,480</b>	<b>\$ 1,421,116</b>	<b>\$ (1,226,131)</b>

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	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	2018 Total	2017 Total
Salaries and wages	\$ 6,978,624	\$ 15,303,866	\$ 2,022,837	\$ 188,431	\$ 2,650,070	\$ 3,006,767	\$ 2,480,954	\$ 1,179,163	\$ 33,810,712	\$ 3,112,423	\$ 802,491	\$ 297,774	\$ 4,212,688	\$ 38,023,400	\$ 35,473,131
Pension plan contributions	255,926	539,118	71,907	4,337	95,265	80,942	97,358	35,391	1,180,244	127,453	38,391	9,359	175,203	1,355,447	1,075,004
Employee benefits	1,089,092	3,244,919	454,936	36,838	399,601	655,987	238,659	260,847	6,380,879	611,479	121,993	54,002	787,474	7,168,353	6,526,811
Payroll taxes	608,228	1,288,432	195,421	15,631	228,844	258,845	179,564	98,439	2,873,404	245,373	67,770	24,512	337,655	3,211,059	3,036,185
<b>Total Salaries and Related Expenses</b>	<b>8,931,870</b>	<b>20,376,335</b>	<b>2,745,101</b>	<b>245,237</b>	<b>3,373,780</b>	<b>4,002,541</b>	<b>2,996,535</b>	<b>1,573,840</b>	<b>44,245,239</b>	<b>4,096,728</b>	<b>1,030,645</b>	<b>385,647</b>	<b>5,513,020</b>	<b>49,758,259</b>	<b>46,111,131</b>
Occupancy	240,952	1,459,839	285,332	718,817	186,387	80,086	160,216	640,831	3,772,460	323,943	65,353	18,521	407,817	4,180,277	4,235,344
Other professional fees	281,215	63,273	8,550	421,084	64,479	10,280	1,194,597	341,407	2,384,885	491,646	14,166	28,024	533,836	2,918,721	1,885,859
Depreciation and amortization	107,538	410,580	69,456	437,223	6,380	69,990	51,547	135,517	1,288,231	646,532	95,594	7,010	749,136	2,037,367	1,871,839
Client assistance	50,139	394,607	70,204	111,835	23,140	170,029	746,691	1,566,645	17	17	17	17	1,566,662	859,845	
Office expenses	195,760	326,644	233,795	32,577	155,988	55,279	22,622	70,643	1,093,308	213,747	124,787	28,906	367,440	1,460,748	1,237,058
Travel	87,249	282,698	11,309	25,273	2,032	200,751	10,175	28,710	648,197	65,878	7,260	5,574	78,712	726,909	670,185
Insurance	105,069	289,279	36,790	3,822	35,590	68,078	21,124	22,395	582,147	107,323	2,006	629	109,958	692,105	633,543
Information technology	22,978	50,507	2,405	7,186	2,192	2,056	7,569	8,543	103,436	297,824	91,306	5,287	394,417	497,853	498,685
Accounting fees				14,785					14,785	471,680			471,680	486,465	427,312
Miscellaneous	11,601	21,468	9,552	25,660	13,296	7,859	6,161	87,190	182,787	193,462	3,312	13,640	210,414	393,201	387,169
Interest	2,201	66,111	2,033	153,516			6,465	37,994	268,320	56,236	7,325	694	64,255	332,575	367,283
Conferences, conventions and meetings	11,211	47,575	5,838	1,350	4,467	10,412	3,172	25,953	109,978	55,303	10,983	125,273	191,559	301,537	209,154
Bad debt	41	26,350		3,551	62,134	2,583	6,155	35,352	136,166	37,069		2,960	40,029	176,195	178,746
Legal fees				5,760				66,396	72,156	93,225			93,225	165,381	199,012
Employee recruitment	37,652	56,359	5,287		9,158	12,750	4,985	10,277	136,468	27,214	779	1,110	29,103	165,571	192,560
Advertising and marketing		50		469				3,699	4,218	1,500		10,917	12,417	16,635	13,218
<b>Total Operating Expenses</b>	<b>\$ 10,085,476</b>	<b>\$ 23,871,675</b>	<b>\$ 3,485,652</b>	<b>\$ 2,208,145</b>	<b>\$ 3,939,023</b>	<b>\$ 4,692,694</b>	<b>\$ 4,491,323</b>	<b>\$ 3,835,438</b>	<b>\$ 56,609,426</b>	<b>\$ 7,179,327</b>	<b>\$ 1,453,516</b>	<b>\$ 634,192</b>	<b>\$ 9,267,035</b>	<b>\$ 65,876,461</b>	<b>\$ 59,977,943</b>

See independent auditor's report.