

MOSSES ADAMS

**CASCADIA BEHAVIORAL  
HEALTHCARE, INC.**

**INDEPENDENT AUDITOR'S REPORT  
AND CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009 AND 2008**

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## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statements of financial position of Cascadia Behavioral Healthcare, Inc. (an Oregon nonprofit corporation) as of June 30, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Cascadia Behavioral Healthcare's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cascadia Behavioral Healthcare as of June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the Oregon Housing and Community Services Department's *Audit Guide*, we have also issued a report dated November 20, 2009 on our consideration of the projects owned by Cascadia Behavioral Healthcare internal controls and a report on compliance with laws and regulations. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion.

These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supporting data shown on pages 29 to 42 are presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements of the Cascadia Behavioral Healthcare, Inc. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Portland, Oregon  
November 20, 2009

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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**ASSETS**

	JUNE 30,	
	2009	2008
<b>CURRENT ASSETS</b>		
Cash available for operations	\$ 329,482	\$ 686,933
Cash held for others	262,346	283,796
	<u>591,828</u>	<u>970,729</u>
Total cash and cash equivalents		
Accounts receivable, net of allowance	1,967,854	2,263,511
Grants receivable	2,428,777	2,950,300
Receivable from affiliated organizations	25,314	233,111
Prepaid expenses and deposits	112,519	200,256
Other receivables	1,271	35,404
	<u>5,127,563</u>	<u>6,653,311</u>
Total current assets		
<b>PROPERTY, BUILDINGS AND EQUIPMENT</b>		
Land, buildings and equipment	20,083,519	19,677,816
Construction in progress	-	365,074
	<u>20,083,519</u>	<u>20,042,890</u>
Accumulated depreciation	(6,233,480)	(5,764,760)
	<u>13,850,039</u>	<u>14,278,130</u>
Total property, buildings and equipment		
<b>OTHER ASSETS</b>		
Restricted cash	1,332,747	1,018,515
Pledges receivable	667,152	613,276
Developer fee receivable	520,184	478,117
	<u>2,520,083</u>	<u>2,109,908</u>
Total other assets		
<b>Total assets</b>	<u>\$ 21,497,685</u>	<u>\$ 23,041,349</u>

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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**LIABILITIES AND NET ASSETS**

	JUNE 30,	
	2009	2008
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 916,384	\$ 2,562,567
Accrued payroll and related expenses	2,409,163	2,522,550
Accrued paid time off	884,506	1,071,083
Funds held on behalf of others	262,346	283,796
Interest payable	2,101	2,101
Advances payable	166,186	349,738
Current portion of long-term debt	918,878	608,670
Line of credit	-	1,739,395
	<u>5,559,564</u>	<u>9,139,900</u>
<b>OTHER LIABILITIES</b>		
Long-term debt, net of current portion	9,533,179	6,982,259
Equity gap financing	2,425,474	2,425,474
	<u>11,958,653</u>	<u>9,407,733</u>
Total liabilities	<u>17,518,217</u>	<u>18,547,633</u>
<b>NET ASSETS</b>		
Unrestricted	1,975,855	2,424,756
Temporarily restricted	2,003,613	2,068,960
	<u>3,979,468</u>	<u>4,493,716</u>
Total net assets	<u>3,979,468</u>	<u>4,493,716</u>
Total liabilities and net assets	<u>\$ 21,497,685</u>	<u>\$ 23,041,349</u>

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	YEAR ENDED JUNE 30, 2009			YEAR ENDED JUNE 30, 2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues, gains and other support						
State of Oregon service fees	\$ 11,551,364	\$ -	\$ 11,551,364	\$ 10,721,580	\$ -	\$ 10,721,580
Title XIX and XVIII service fees	10,763,598	-	10,763,598	15,421,108	-	15,421,108
Multnomah County service contracts	9,832,353	-	9,832,353	11,970,710	-	11,970,710
Marion County service contracts	2,967,767	-	2,967,767	2,850,490	-	2,850,490
Program service fees	2,604,662	-	2,604,662	5,945,955	-	5,945,955
Grants and contributions	1,412,749	145,964	1,558,713	1,343,884	78,733	1,422,617
Other county and local government service contracts	946,451	-	946,451	5,116,042	-	5,116,042
Gain on Garlington fire insurance proceeds	826,604	-	826,604	-	-	-
Third-party reimbursements and client fees	752,318	-	752,318	1,628,285	-	1,628,285
Other contracts	365,067	-	365,067	335,242	-	335,242
Other	313,881	-	313,881	372,183	-	372,183
In-kind contributions	47,575	-	47,575	51,961	-	51,961
Interest	8,909	-	8,909	47,378	-	47,378
	<u>42,393,298</u>	<u>145,964</u>	<u>42,539,262</u>	<u>55,804,818</u>	<u>78,733</u>	<u>55,883,551</u>
Total revenues and gains						
Net assets released from restrictions	211,311	(211,311)	-	259,591	(259,591)	-
	<u>42,604,609</u>	<u>(65,347)</u>	<u>42,539,262</u>	<u>56,064,409</u>	<u>(180,858)</u>	<u>55,883,551</u>
Total revenues, gains and other support						
Expenses						
Program services	35,611,656	-	35,611,656	49,592,944	-	49,592,944
Management and general	7,441,854	-	7,441,854	8,347,343	-	8,347,343
Fundraising	-	-	-	62,064	-	62,064
	<u>43,053,510</u>	<u>-</u>	<u>43,053,510</u>	<u>58,002,351</u>	<u>-</u>	<u>58,002,351</u>
Total expenses						
Change in net assets	<u>\$ (448,901)</u>	<u>\$ (65,347)</u>	<u>\$ (514,248)</u>	<u>\$ (1,937,942)</u>	<u>\$ (180,858)</u>	<u>\$ (2,118,800)</u>

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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	YEAR ENDED JUNE 30, 2009			YEAR ENDED JUNE 30, 2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Net assets at beginning of year	\$ 2,424,756	\$ 2,068,960	\$ 4,493,716	\$ 4,362,698	\$ 2,249,818	\$ 6,612,516
Change in net assets	<u>(448,901)</u>	<u>(65,347)</u>	<u>(514,248)</u>	<u>(1,937,942)</u>	<u>(180,858)</u>	<u>(2,118,800)</u>
Net assets at end of year	<u>\$ 1,975,855</u>	<u>\$ 2,003,613</u>	<u>\$ 3,979,468</u>	<u>\$ 2,424,756</u>	<u>\$ 2,068,960</u>	<u>\$ 4,493,716</u>

*See accompanying notes.*

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Program Services					Support Services				Grand Total
	Mental Health Services	Integrated Services	Residential Services	Property Management and Development	SMYRC Services	Total	Fundraising Activities	Management and General	Total	
Payroll and related costs	\$ 12,839,654	\$ 4,457,466	\$ 9,805,705	\$ 473,288	\$ 272,767	\$ 27,848,880	\$ -	\$ 3,776,815	\$ 3,776,815	\$ 31,625,695
Professional fees	172,793	27,020	2,779	63,648	-	266,240	-	1,135,248	1,135,248	1,401,488
Subcontract costs	121,563	24,801	1,549	-	-	147,913	-	16,973	16,973	164,886
Office supplies	106,395	11,447	45,415	2,132	1,937	167,326	-	103,199	103,199	270,525
Program supplies	140,296	51,110	609,951	1,352	4,064	806,773	-	1,902	1,902	808,675
Medical supplies and equipment	29,849	102,114	36,512	-	-	168,475	-	-	-	168,475
Repairs and maintenance	221,634	11,640	161,046	577,176	310	971,806	-	5,187	5,187	976,993
Equipment leases	113,477	19,409	17,453	5,192	-	155,531	-	25,617	25,617	181,148
Food and related expenses	247,312	103,728	296,527	38	726	648,331	-	-	-	648,331
Printing and postage	22,668	2,157	1,541	763	469	27,598	-	31,871	31,871	59,469
Telephone and utilities	425,239	36,222	108,943	498,507	1,385	1,070,296	-	10,764	10,764	1,081,060
Rent	1,226,868	51,636	56,439	253,583	59,162	1,647,688	-	43,782	43,782	1,691,470
Insurance	26,848	1,105	-	43,972	-	71,925	-	390,049	390,049	461,974
Dues and subscriptions	291	11,503	418	939	-	13,151	-	3,057	3,057	16,208
Training	5,692	10,597	8,668	1,584	2,229	28,770	-	35,722	35,722	64,492
Travel	182,477	40,855	80,140	16,339	5,720	325,531	-	34,665	34,665	360,196
Interest	234,070	10,901	-	160,109	-	405,080	-	108,913	108,913	513,993
State Medicaid settlement	-	-	-	-	-	-	-	1,200,000	1,200,000	1,200,000
Other	(2,227,715)	1,066,772	1,273,473	28,792	15,985	157,307	-	231,836	231,836	389,143
Total expenses before depreciation	13,889,411	6,040,483	12,506,559	2,127,414	364,754	34,928,621	-	7,155,600	7,155,600	42,084,221
Depreciation	198,553	-	-	484,482	-	683,035	-	286,254	286,254	969,289
Total expenses	\$ 14,087,964	\$ 6,040,483	\$ 12,506,559	\$ 2,611,896	\$ 364,754	\$ 35,611,656	\$ -	\$ 7,441,854	\$ 7,441,854	\$ 43,053,510

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Program Services					Support Services				Grand Total
	Mental Health Services	Integrated Services	Residential Services	Property Management and Development	SMYRC Services	Total	Fundraising Activities	Management and General	Total	
Payroll and related costs	\$ 21,082,753	\$ 5,757,833	\$ 10,331,592	\$ 654,948	\$ 229,932	\$ 38,057,058	\$ 55,060	\$ 5,375,034	\$ 5,430,094	\$ 43,487,152
Professional fees	208,185	26,997	24,882	61,241	-	321,305	3,689	931,390	935,079	1,256,384
Subcontract costs	1,588,821	128,942	35,171	-	-	1,752,934	-	2,501	2,501	1,755,435
Office supplies	231,570	27,926	47,218	2,630	125	309,469	24	152,902	152,926	462,395
Program supplies	376,982	48,462	500,797	6,257	3,259	935,757	7	13,522	13,529	949,286
Medical supplies and equipment	33,276	161,725	30,367	-	-	225,368	-	-	-	225,368
Repairs and maintenance	532,962	10,886	151,716	652,835	122	1,348,521	-	(33,916)	(33,916)	1,314,605
Equipment leases	118,329	12,726	14,109	4,770	-	149,934	-	21,085	21,085	171,019
Food and related expenses	258,785	130,493	649,153	5,466	1,303	1,045,200	-	-	-	1,045,200
Printing and postage	49,723	1,247	1,966	251	206	53,393	-	39,022	39,022	92,415
Telephone and utilities	628,422	41,919	110,112	503,932	687	1,285,072	626	22,634	23,260	1,308,332
Rent	1,579,606	19,642	44,087	501,950	54,394	2,199,679	659	98,812	99,471	2,299,150
Insurance	30,634	604	-	29,109	-	60,347	-	489,095	489,095	549,442
Dues and subscriptions	25,277	10,407	563	100	-	36,347	-	5,429	5,429	41,776
Training	(54,277)	28,365	38,177	1,867	4,167	18,299	240	41,818	42,058	60,357
Travel	290,892	74,017	78,136	23,308	5,386	471,739	573	69,783	70,356	542,095
Interest	244,069	12,439	-	164,916	-	421,424	-	138,919	138,919	560,343
Other	(5,001,778)	2,253,949	2,538,305	327,060	52,433	169,969	1,186	827,893	829,079	999,048
Total expenses before depreciation	22,224,231	8,748,579	14,596,351	2,940,640	352,014	48,861,815	62,064	8,195,923	8,257,987	57,119,802
Depreciation	306,995	16,484	22,388	385,262	-	731,129	-	151,420	151,420	882,549
Total expenses	\$ 22,531,226	\$ 8,765,063	\$ 14,618,739	\$ 3,325,902	\$ 352,014	\$ 49,592,944	\$ 62,064	\$ 8,347,343	\$ 8,409,407	\$ 58,002,351

*See accompanying notes.*

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

	YEAR ENDED JUNE 30,	
	2009	2008
Change in net assets	\$ (514,248)	\$ (2,118,800)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	969,289	882,549
(Gain)/loss on disposal of fixed assets	(826,604)	54,351
Changes in assets and liabilities		
Cash held for others	21,450	93,488
Accounts receivable, net of allowance	295,657	252,897
Grants receivable	521,523	(10,317)
Receivable from affiliated organizations	207,797	(24,778)
Prepaid expenses and deposits	87,737	(79,762)
Other receivables	34,133	(32,402)
Pledges receivable	(53,876)	11,267
Developer fee receivable	(42,067)	24,803
Accounts payable and accrued expenses	(1,646,183)	1,234,677
Accrued payroll and related expenses	(113,387)	(311,913)
Accrued paid time off	(186,577)	(456,542)
Funds held on behalf of others	(21,450)	(93,488)
Interest payable	-	2,101
Advances payable	(183,552)	41,033
Net cash used by operating activities	<u>(1,450,358)</u>	<u>(530,836)</u>
Cash flows from investing activities		
Purchase of property, buildings and equipment	(1,452,574)	(379,692)
Insurance proceeds from fire	1,414,367	-
Redemption of equity investment in joint venture	-	55,874
Changes in restricted cash reserves	(314,232)	(27,817)
Net cash used by investing activities	<u>(352,439)</u>	<u>(351,635)</u>
Cash flows from financing activities		
Proceeds from line of credit	-	1,739,395
Payment on equity gap financing	-	(385)
Payments on long-term debt	(285,005)	(464,070)
Proceeds from long-term debt	1,730,351	94,615
Net cash provided by financing activities	<u>1,445,346</u>	<u>1,369,555</u>
Net change in cash and cash equivalents	(357,451)	487,084
Cash available for operations, at beginning of year	686,933	199,849
Cash available for operations, at end of year	<u>\$ 329,482</u>	<u>\$ 686,933</u>

**SUPPLEMENTAL DISCLOSURE OF NON CASH ACTIVITY**

Transfer of long-term debt and equipment to Catholic Charities	\$ 323,613	\$ -
Refinance of line of credit to long-term debt	\$ 1,739,395	\$ -

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

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**Note 1 - Business and Organization**

Cascadia Behavioral Healthcare, Inc., (“Cascadia” or “Organization”) is incorporated in the state of Oregon as a not-for-profit organization to provide services for charitable and educational purposes. Its mission is to provide a comprehensive, integrated system of behavioral health care and management that demonstrates quality service, innovative approaches, effective outcomes, consumer satisfaction and cost containment in Multnomah, Washington and Marion Counties in Oregon. As part of the organization’s mission, the organization operates housing projects under Section 8 of the National Housing Act of 1937. Such projects are regulated by Oregon Housing and Community Services (the “Department”) as to rent charges and operating methods. The Regulatory Agreement between Cascadia and the Department also limits annual distributions of net operating receipts to “surplus cash” by project available at the end of each year.

During the years ended June 30, 2009 and 2008, Cascadia incurred program service expenses in the following major categories:

**Mental Health Services**

Cascadia provides services for adults with severe mental illness. Services consist of a comprehensive array of support specifically designed to maintain clients in their communities. Cascadia also provides behavioral health care to children, families, young adults and older adults in psychiatric distress who need evaluation, crisis intervention, medication and/or outpatient counseling.

**Integrated Services**

These programs place an emphasis on combining mental health and addiction treatment services for individuals with coexisting disorders. Cascadia offers a broad range of outpatient and residential services at multiple locations for individuals in need of treatment for substance-related disorders. Cascadia’s gambling addiction program offers specialized services for individuals and families experiencing problems relating to gambling.

**Residential Services**

Cascadia’s Residential Services work with over 300 individuals across 21 sites. Staff support at the sites varies from 8 hours per day at the Semi-Independent Living sites to 24-hour care at the licensed programs. Services provided include custodial and clinical staff, meals, skills training, medication management, case management and psychiatric services. The programs specialize in working with homeless individuals, State Hospital clients and/or forensic clients.

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

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**Note 1 - Business and Organization (Continued)**

**Property Management and Development**

Cascadia's staff develops affordable residential properties for persons with special needs. Cascadia's developers arrange financing, perform feasibility analysis, engage design professionals and manage construction. Cascadia's asset management staff manages over 775 units of housing in 50 different locations throughout the Portland metropolitan area. Cascadia offers multiple residential options which include staffed residential care facilities, shared housing, and traditional apartment communities.

**Sexual Minority Youth Resource Center**

Sexual Minority Youth Resource Center (SMYRC) creates safety and support for sexual minority youth through community building, education, advocacy and youth empowerment. Programs include the SMYRC, Roots & Branches Case Management, Bridge 13 Youth Speakers' Bureau, the Washington County Pride program and a smoking cessation program.

**Note 2 - Summary of Significant Accounting Policies**

**Basis of accounting** - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting.

**Principles of consolidation** - The accompanying 2009 and 2008 consolidated financial statements includes the following controlled not-for-profit entities:

Oasis House, Inc. (23<sup>rd</sup> Avenue House and Overton House)  
Andrea Place, Inc.  
Faulkner Place, Inc.  
Garlington Plaza, Inc.  
Glisan Passages, Inc.

All significant inter-company investments, accounts and transactions have been eliminated.

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Financial statement presentation** –Financial accounting standards for not-for-profit organizations, requires the organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- ◆ *Unrestricted net assets* - Net assets 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 Cascadia and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- ◆ *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations which must be maintained permanently by Cascadia. Cascadia has no permanently restricted net assets.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of uncollectible accounts receivable and contractual adjustments and uncollectible pledges receivable.

**Revenue recognition** - Net client service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors. Adjustments are accrued in the period final settlements are determined. Cascadia recognizes the majority of its revenue when services are provided. All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned.

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Contributions** - Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the commitment is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

**Contributions of long-lived assets** - Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets for acquisition of land, buildings or equipment, or to rehabilitate existing properties, with specific donor-imposed restrictions concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class. The restrictions are released as the stipulated time period has elapsed or when the legal limitations related to the use of the asset are no longer in force.

**In-kind contributions** - Cascadia reports as revenue the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing those skills and represent services that would have been purchased had they not been donated. During the year ended June 30, 2009, \$16,135 in contributed services was recorded. No contributed services were recorded during the year ended June 30, 2008.

In addition, Cascadia regularly receives contributed services from a large number of volunteers who assist in program activities, fund-raising and other efforts through their participation in a range of events and by working with members of Cascadia staff in a variety of capacities. Cascadia considers the value of such services not practicable to estimate and have not been recognized in the accompanying financial statements.

In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an integral part of Cascadia's activities. During the years ended June 30, 2009 and 2008, \$31,440 and \$51,961, respectively, in contributed materials or equipment were recorded.

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

Expenses by natural classification are presented in the consolidated statement of functional expenses.

**Cash and cash equivalents** - Management considers financial instruments with maturities of less than 12 months to be cash and cash equivalents. Cash generated under Oregon Housing projects may be limited for use within the project from which they were generated.

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Cash held for others** - Cash held on behalf of residents is recorded in a liability and cash account which is shown separately on the balance sheet. Total cash held on behalf of residents and the related liability was \$262,346 and \$283,796 as of June 30, 2009 and 2008, respectively.

**Restricted cash** - Restricted cash is comprised of security and escrow deposits as well as replacement reserve funds maintained in separate accounts to comply with various regulatory agreements and donor restrictions. The balance also includes \$343,643 and \$376,000 as of June 30, 2009 and 2008, respectively of restricted funds to cover prior unemployment claims.

**Fair value measurements** - Effective January 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements*, for all applicable financial assets and liabilities. This accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value in any new circumstances.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Market participants are buyers and sellers, who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured.

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Organization's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads. The valuation techniques used are based on observable and unobservable inputs.

Observable inputs are those assumptions which market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Organization.

Unobservable inputs are assumptions based on the Organization's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

SFAS No.157 establishes a three-level valuation hierarchy for determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy are as follows:

- ◆ *Level 1* - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ◆ *Level 2* - Either: (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data or other pricing sources with reasonable levels of transparency.
- ◆ *Level 3* - Unobservable inputs.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement. All the Organizations financial instruments qualify as a Level 1.

The following methods and assumptions were used by the Organization in estimating fair values of each class of financial instruments for which it is practicable to estimate that value:

*Cash and cash equivalents* - The carrying amount approximates fair value because of the short maturity of these instruments.

*Accounts receivable, accounts payable, and accrued expenses* - The carrying amounts are at historical costs; their respective estimated fair values approximate carrying values due to their current nature.

*Pledges receivable* – Valued at fair value by using the present value technique. Net realizable value is a reasonable estimate of fair value.

*Developer fee receivable* – Valued at fair value by discounting the expected cash flows based on current yields.

*Long-term debt and equity gap financing* – Valued at amortized cost, which approximates fair value.

**Developer fee receivable** - Cascadia has contracts to provide development services to two related party housing partnerships. The housing partnerships are owned by Cascadia Housing, Inc. (see Note 12). Development services include obtaining construction financing, conduct impact studies, prepare construction budgets, obtain construction contracts and supervise construction. The payment of the development fees are based upon the timing of the capital contribution installments received by the partnership. A portion of the fees are deemed earned on the date construction is commenced and the remaining is deemed earned upon the completion date of the project.

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Capital assets and depreciation** - Land, buildings and equipment are carried at cost, and at market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are generally 15 to 40 years for buildings, 5 to 10 years for leasehold improvements, and 3 to 5 years for furniture and equipment.

**Accrued paid time off** - Cascadia accrues paid time off as the obligation is incurred.

**Income taxes** - Cascadia is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and is a publicly supported organization as defined in Sections 170(b)(1)(a)(vi) and 509(a)(1). Several of Cascadia's wholly-owned subsidiaries are 501(c)(2) corporations. 501(c)(2) corporations are organized for the exclusive purpose of holding title to property, collecting income from these properties and turning over the entire amount earned, less expenses, to an organization which itself is exempt under the same revenue code section.

In July 2006, the Financial Accounting Standards Board ("FASB") issued standards regarding the accounting for uncertainty in income taxes. The standard clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

The standard was originally effective for fiscal years beginning after December 15, 2006, but was delayed multiple times by FASB for certain nonpublic enterprises. Cascadia is considered a "nonpublic enterprise" as a 501(c)(3) not-for-profit entity without public debt. Pursuant to FIN 48-3, management has elected to defer the application of Accounting for Uncertainty in Income Taxes to fiscal years beginning after December 15, 2008. Cascadia would record the impact of uncertain tax positions if the outcome was considered probable and reasonably estimable. As of June 30, 2009 and 2008, Cascadia had no uncertain tax positions requiring accrual.

The Organization recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended June 30, 2009 and 2008, the Organization recognized no interest and penalties.

The Organization files an exempt organization income tax return in the U.S. federal jurisdiction.

**Reclassification** - Certain 2008 balances have been reclassified to conform to the 2009 presentation.

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

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**Note 3 - Concentrations**

***Credit Risk***

Financial instruments that potentially subject Cascadia to concentrations of credit risk consist primarily of cash and accounts receivable. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. Concentrations of credit risk with respect to contract receivables are limited through credit approvals, credit limits and various monitoring procedures. The majority of Cascadia's receivables are with the State of Oregon and other governmental institutions, and are considered to be low in risk.

***Revenue***

The majority of Cascadia's revenues are earned under contracts with the Department of Community and Family Services of Multnomah County, Oregon and the State of Oregon to provide mental health program services (representing approximately 50 percent of total consolidated revenues for the years ended June 30, 2009 and 2008). As a part of these contracts, revenues are also received through services provided under the federally funded and State managed Title XIX of the Social Security Act Medicaid program, and the Title XVIII Medicare program (representing approximately 25 percent of total consolidated revenues for the years ended June 30, 2009 and 2008). A significant reduction in the level of this funding could adversely affect Cascadia's ability to provide programs and services. Additional funding for Cascadia's programs is received through third-party reimbursements, program service fees and grants and contributions.

**Note 4 - Accounts Receivable**

Accounts receivable are reported net of estimated uncollectible accounts and contractual adjustments. Management periodically evaluates accounts receivable and establishes an allowance for contractual adjustments and uncollectible accounts, based on a history of past write-offs and collections. Due to the nature of medical related receivables, some balances extend over 90 days. Interest is generally not charged on outstanding balances. Credit is generally extended to customers without collateral requirements.

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

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**Note 4 - Accounts Receivable (Continued)**

At June 30, 2009 and 2008, the following accounts receivable were outstanding:

	June 30,	
	2009	2008
State of Oregon (Title XIX and XVIII)	\$ 2,961,750	\$ 2,281,339
County contracts	1,218,758	1,829,211
Third-party reimbursements and client fees	49,742	368,120
Other	159,160	94,781
	<u>4,389,410</u>	<u>4,573,451</u>
Less allowance for doubtful accounts	<u>(2,421,556)</u>	<u>(2,309,940)</u>
 Total accounts receivable, net of allowance	 <u>\$ 1,967,854</u>	 <u>\$ 2,263,511</u>

**Note 5 - Pledges Receivable**

Pledges receivable were comprised of unconditional promises to give, which have been discounted to present value, and consisted of the following:

	June 30,	
	2009	2008
One year to five years	\$ 178,400	\$ 178,400
Discount for present value	(9,333)	(16,086)
	<u>169,067</u>	<u>162,314</u>
More than five years	580,200	580,200
Discount for present value	(82,115)	(129,238)
	<u>498,085</u>	<u>450,962</u>
Total pledges receivable	<u>\$ 667,152</u>	<u>\$ 613,276</u>
 Discount rate	 2.76%	 3.20%

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

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**Note 6 - Property, Buildings and Equipment**

A summary of land, buildings and equipment at June 30, 2009 and 2008, is as follows:

	June 30,	
	2009	2008
Land	\$ 2,707,254	\$ 2,707,254
Buildings and leasehold improvements	15,363,361	15,080,400
Furniture and equipment	2,012,904	1,890,162
Construction in progress	-	365,074
	<u>20,083,519</u>	<u>20,042,890</u>
Less accumulated depreciation	<u>(6,233,480)</u>	<u>(5,764,760)</u>
 Total land, buildings and equipment, net of accumulated depreciation	 <u>\$ 13,850,039</u>	 <u>\$ 14,278,130</u>

Depreciation expense was \$969,289 and \$882,549 for the years ended June 30, 2009 and 2008, respectively.

Included in the above table are land, buildings, furniture and equipment representing the following projects:

- 23<sup>rd</sup> Street Apartments
- 75<sup>th</sup> Street
- Andrea Place Apartments
- Clinton Street Apartments
- Emerson Corner Apartments
- Faulkner Place Apartments
- Glisan Street Apartments
- Killingsworth Group Homes (Barbara Roberts)
- Nadine's Place
- Pisgah
- Rita Mae Manor
- Royal Palm

These projects are funded by restricted financing and grants. According to applicable grant stipulations, if these properties are used for any purpose other than to house low-income individuals with chronic mental illness and coexisting substance abuse problems, or if the properties are sold or transferred, Cascadia will be contingently liable for the repayment of all grant proceeds received. Since inception through June 30, 2009, Cascadia has received \$1,865,987 in grant funds and \$2,425,474 in equity gap financing to fund these projects. The grant funds are recorded in temporarily restricted net assets and the revenue is recognized over the stipulation period, which ranges from fifteen to thirty years. The equity gap financing agreements are recorded as long-term liabilities on the balance sheet (see Note 8).

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

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**Note 7 - Equity Gap Financing**

Cascadia has multiple equity gap financing agreements with the Portland Development Commission (PDC). Under these agreements, Cascadia is restricted to use a certain percentage of the property funded for low income persons and must comply with other restrictions on the use of the property. The financing arrangements do not require set principal payments and do not charge any interest. However, if any project under the equity gap financing agreements demonstrates program revenue in excess of a 1.15 debt service coverage ratio in any single year of its operation, the excess must be shared equally between Cascadia and PDC. The unpaid principal balance is due to the Commission upon any default under the agreement or if the property is sold, transferred, further pledged or there is a change in the use which results in a default. Total equity gap financing through PDC was \$2,281,520 as of June 30, 2009 and 2008.

Cascadia also has one equity gap financing agreement with the State of Oregon. The agreement has similar terms and requirements as the agreements with PDC. Total equity gap financing through the State of Oregon was \$143,954 as of June 30, 2009 and 2008.

As of June 30, 2009 and 2008, Cascadia had complied with all asset restrictions referred to above, and also has the intention and ability to continue to comply with those restrictions. Accordingly, no portion of the liability has been recorded as a current liability at June 30, 2009 and 2008.

**Note 8 - Long-Term Debt**

During the year ended June 30, 2009, Cascadia entered into an agreement with Multnomah County to convert their line of credit to a long-term debt note. The debt accrues interest at 4% annually and matures February 28, 2021.

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

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**Note 8 - Long-Term Debt (Continued)**

The following obligations were outstanding at June 30, 2009 and 2008:

	June 30,	
	2009	2008
Howard L. and Jane B. Glazer, 6.75%, due in monthly payments of \$20,000, including interest. Entire principal balance and unpaid interest is due May 2016. Secured by land and building.	\$ 2,402,630	\$ 2,477,680
Multnomah County Credit Agreement, 4%, due in monthly payments of \$15,750 until July 31, 2010 when payments increase by 5% annually until February 28, 2021 when the entire unpaid principal and interest balance become due and payable. Secured by substantially all assets.	2,263,443	-
State of Oregon Housing and Community Services Department, serviced by Siuslaw Valley Bank, that range from 2.22% to 7.40%, due in monthly payments of \$13,305, including interest. Due 2024 through 2027, secured by land and buildings.	1,734,327	1,800,569
Bank of the West, that range from prime plus 1% to 6.64%, due in monthly payments of \$9,379, including interest. Due 2032 through 2035, secured by land and building.	1,293,043	1,316,401
State of Oregon Department of Human Services settlement, agreement due in monthly payments of \$20,000 at 0% interest. Due June 1, 2014. (Note 14)	1,200,000	-
City of Portland, various notes at 3.00%, due in monthly payments of \$6,620. Notes mature between March 2013 , and 2030, secured by land and building.	998,246	1,045,053
Network For Oregon Affordable Housing, with interest accruing at a rate of 5.25%, principal and interest due May 2010, secured by land and building. Transferred along with related assets to Catholic Charities during 2009.	-	323,613

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

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**Note 8 - Long-Term Debt (Continued)**

	June 30,	
	2009	2008
Meyer Memorial Trust, 2%, entire principal balance and unpaid interest is due December 2009. Secured by land.	318,605	312,301
West Coast Bank, prime plus 3.25%, due in monthly payments of \$2,935, including interest. Due July 2014, secured by land and building.	129,174	149,197
GMAC Financial Services, 6.50%, due in monthly payments of \$727 through December 2028, secured by land and building.	96,283	98,663
IBM administers four capital leases, with interest rates ranging from 5.6% to 9.3%, total monthly payments of \$19,660 through August 2008, for computer hardware, software and services.	-	38,902
U.S. National Bank of Oregon, 4.50%, due in monthly payments of \$1,100 through August 2011, secured by land and building.	16,306	28,550
	10,452,057	7,590,929
Less current portion	(918,878)	(608,670)
	\$ 9,533,179	\$ 6,982,259

Aggregate maturities of note principal for the five years subsequent to June 30, 2009, are as follows:

Year Ending June 30,	
2010	\$ 918,878
2011	618,928
2012	645,158
2013	677,016
2014	678,711
Thereafter	6,913,366
	\$ 10,452,057

The Prime rate was 3.25% as of June 30, 2009.

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

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**Note 9 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of funds received and expended in the construction of various housing projects. The use of the various properties is restricted over the life of the programs or the expected life of the asset and is comprised of the following:

	June 30,	
	2009	2008
Prescott Terrace	\$ 832,332	\$ 908,000
Emerson Corner	135,418	140,627
Pisgah	227,057	256,076
Funds required to be used for low income housing	141,654	150,982
Mental health services	667,152	613,275
	<u>\$ 2,003,613</u>	<u>\$ 2,068,960</u>

Cascadia received \$145,964 and \$78,733 in temporarily restricted contributions, and incurred \$211,311 and \$259,591 in expenses in satisfaction of the restricted purposes specified by donors, or by the occurrence of other events specified by donors during the years ended June 30, 2009 and 2008, respectively.

**Note 10 - Commitments**

Certain Cascadia's program facilities, administrative offices and equipment are leased under operating leases. The leases expire in periods ranging from 2 months to 18 years. Leases which expire are generally renewed or replaced with similar leases.

At June 30, 2009, Cascadia's aggregate annual lease commitments, excluding operating costs, under non-cancelable leases with terms of one year or more are payable as follows:

Year Ending June 30,	
2010	\$ 1,505,422
2011	1,340,584
2012	1,189,161
2013	959,843
2014	710,915
Thereafter	<u>130,861</u>
	<u>\$ 5,836,786</u>

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

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**Note 10 - Commitments (Continued)**

Rent expense was approximately \$1,691,470 and \$2,299,150 for the years ended June 30, 2009 and 2008, respectively.

**Note 11 - Retirement Plan**

Cascadia provides substantially all full-time and certain part-time employees with a tax-sheltered annuity plan as described under Section 403(b) of the Internal Revenue Code. Cascadia will match up to 3 percent of the annual compensation of each eligible employee. Only employees who have completed at least one year of employment at Cascadia and provided at least 1,000 hours of services are eligible to participate in the employer-matching aspects of the plan. Employees select from among several investment options. Cascadia's contributions to the plan vest after five years of service to Cascadia. Cascadia's contribution to the plan was \$231,440 and \$351,000 for the years ended June 30, 2009 and 2008, respectively.

**Note 12 - Related Party**

***Management agreements***

Cascadia Behavioral Healthcare has management agreements with Cascadia Housing, Inc. ("Cascadia Housing"). Cascadia also has management agreements with the following entities in which Cascadia Housing is the general partner:

- Alpine East, Inc.
- Clinton Ridge, LP
- Coburn Woods, Inc.
- EcuNet Housing, Inc.
- Martha Washington, LP
- Midland Commons Apartments, LP
- MLK Manor, LLC
- Nawikka Court, LLC
- Mt. Hood Special Housing
- Rain Garden, LP
- Tillicum Court, LLC
- Three West Housing, Inc.
- Tryon Mews Apartments, LLC
- Urban Housing Options, LP
- Vermont Springs Apartments, LLC
- West Gresham Apartments, LP

During the years ended June 30, 2009 and 2008, Cascadia billed these entities \$424,898 and \$395,718, respectively, for property management fees, accounting services fees and occupancy service fees. Cascadia had a receivable of \$13,526 and \$179,604 as of June 30, 2009 and 2008, respectively.

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

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**Note 12 - Related Party (Continued)**

*Guarantor Agreements*

Cascadia Behavioral Healthcare, Inc. has entered into guaranty agreements with Cascadia Options LLC (“Cascadia Options”), a holding company of Cascadia Housing, Inc., and the following limited liability companies (the “LLC Companies”) formed under the laws of the State of Oregon:

- MLK Manor LLC
- Nawikka Court LLC
- Tillicum Court LLC
- Tryon Mews Apartments LLC
- Vermont Springs Apartments LLC

Under certain conditions, Cascadia Options is obligated to purchase the members’ interests in the LLC Companies. Cascadia has agreed to advance the funds necessary to purchase the members interest should Cascadia Options require such advance. As of June 30, 2009, Cascadia has not been required to advance any funds to Cascadia Options.

Cascadia Behavioral Healthcare, Inc. has also entered into guaranty agreements with Cascadia Housing, Inc., Banc of America Housing Fund IV A Limited Partnership, LLLP, and the following limited partnerships:

- Midland Commons Apartments Limited Partnership
- West Gresham Apartments Limited Partnership

Cascadia has agreed to advance funds to Cascadia Housing in the amount necessary for Cascadia Housing to make required operating deficit contributions if an operating deficit exists and Cascadia Housing does not make an operating deficit contribution when required. As of June 30, 2009, there were no operating deficit contributions required of Cascadia.

Cascadia has also agreed to advance funds to Cascadia Housing in the amount necessary for Cascadia Housing to make the required credit adjuster advance or additional advances should Cascadia Housing not be able to make payments per the partnership agreements. As of June 30, 2009, Cascadia has not been required to advance any funds.

Cascadia has also agreed to purchase the interests of the Limited Partner if Cascadia Housing lacks sufficient funds to purchase such interest per terms outlined in the partnership agreements. As of June 30, 2009, Cascadia has not been requested to purchase any interests.

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

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**Note 12 - Related Party (Continued)**

In the event that West Gresham Apartments Limited Partnership shall not receive full property tax abatement during the first ten (10) years following the completion date, so that the Partnership owes any property taxes, Cascadia shall advance sufficient funds to Cascadia Housing so that the Partnership may pay such taxes in a timely manner. As of June 30, 2009, Cascadia has not been required to advance any funds.

Cascadia Behavioral Healthcare guarantees certain operational results of these properties. To date, Cascadia has not been required to cover any guarantees as the situations that would trigger the guarantee have not occurred. Due to the nature of these guarantees, Cascadia is unable to quantify the potential guarantee exposure from these contracts.

**Note 13 - Unemployment Insurance**

Through June 30, 2008, Cascadia managed its own unemployment trust funds through insurance with The Hartford Fire Insurance Company (the "Hartford"). Effective July 1, 2008, Cascadia management chose to join the State of Oregon unemployment program. At June 30, 2009 and 2008, Cascadia estimated \$465,100 and \$570,150, respectively, in unemployment claims payable. This accrual is included in accounts payable on the balance sheet.

The Hartford required Cascadia, as a condition under a performance bond, to restrict funds by setting up an account secured by a letter of credit. To satisfy this condition, \$343,643 and \$370,000 is included in restricted cash as of June 30, 2009 and 2008, respectively. The letter of credit expires April 2010.

**Note 14 - Contingencies and Litigation**

Amounts received or receivable under Cascadia's contract with Multnomah County, Marion County, City of Portland and City of Salem are subject to audit and adjustment by the County, City and by the Mental Health Division of the state of Oregon. Any expenditures or claims disallowed as a result of such audits would become a liability of Cascadia's general operating funds. In the opinion of Cascadia's management, any adjustments that might result from such audits would not be material to Cascadia's overall financial statements.

During 2009, Cascadia settled an outstanding claim with the State of Oregon, Department of Human Services, Office of Payment Accuracy and Recovery for services provided between October 1, 2003 and September 30, 2004 for \$1,200,000. The settlement did not constitute any admission of any violation of DHS rules or any other regulations, statutes or laws. The settlement is to be paid in 60 equal installments of \$20,000 per month, with the last payment due July 1, 2014. The settlement liability is included in long-term debt (see Note 8).

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

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**Note 14 - Contingencies and Litigation (Continued)**

*Medicare and Medicaid Laws and Regulations*

Cascadia services include Medicare and Medicaid patients. Billings for these clients have an inherent risk as they are subject to Medicare and Medicaid regulations, including anti-kickback and fraud and abuse statutes.

*Medical Malpractice*

Cascadia and clinicians employed by Cascadia are insured by Diamond State Insurance. Cascadia's financial obligation is limited to its premiums for malpractice insurance coverage. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. It is not practical to estimate a range of possible loss for Cascadia's litigation matters, and losses could be material with respect to changes in net assets in any given period. However, management does not believe there are any material uninsured malpractice costs at June 30, 2009.

*Litigation*

In the ordinary course of business, Cascadia is a party to claims and legal actions by consumers, providers and others. After consulting with legal counsel, Cascadia's management is of the opinion that any liability that may ultimately be incurred as a result of claims or legal actions will not have a material affect on the financial position or results of operations of Cascadia.

**Note 15 - Discontinued Programs**

By the end of fiscal year 2008, Cascadia had been notified by Washington County personnel that Washington County was ending its contract with Cascadia. As of June 30, 2008, Cascadia ceased providing mental health and addiction services to eligible residents of the County. For the year ended June 30, 2008, these programs represented \$2,289,560 of revenue or 4.08% of total operating revenue for the fiscal year.

Also at the end of the fiscal year 2008, Multnomah County notified Cascadia that they wished to transfer the operations of two outpatient clinics to other providers. On August 16, 2008, the Gresham clinic operations were transferred to Lifeworks Northwest as stipulated by Multnomah County. During the 2008 fiscal year, these operations represented \$1,907,547 of revenue or 3.4% of total operating revenue for the year.

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

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**Note 15 - Discontinued Programs (Continued)**

On December 7, 2008, the Downtown clinic operations were transferred to Central City Concern as stipulated by Multnomah County. During the 2008 fiscal year, these operations represented \$3,559,601 of revenue or 6.35% of total operating revenue for the year.

These discontinued programs represented 13.84% of total revenue during fiscal year 2008.

Marion County notified Cascadia it intended to assume all mental health delivery in the County and has terminated its arrangement with Cascadia. As of June 30, 2009, except for an addiction program maintained in Woodburn, the clinics in Salem had their operations assumed by Marion County and Cascadia has since ceased operations in Marion County. For the year ended June 30, 2009, these programs represented \$3,854,942 in revenue, or 9.06% of total operating revenue for fiscal year 2009. These operations represented \$3,985,205 of revenue or 7.11% of total operating revenue for fiscal year 2008.

**Note 16 - Garlington Fire**

A fire broke out at the Garlington Center on October 21, 2008. The Garlington Center is one of three outpatient clinic sites operated by Cascadia. The fire caused substantial damage to the Garlington Center, which also housed the computer servers used by Cascadia. Insurance funds for a replacement computer server were disbursed promptly by the carrier and Cascadia was able to purchase and install a new server within a matter of days. The computer server and other network support hardware is now housed in an independent "co-lo" location, which has state of the art fire suppression, uninterruptable power supplies as well as upgraded security to ensure the company's computer servers stay operational and supportable.

Services performed at the Garlington site had been interrupted, with temporary offices established at the site to resume services. Cascadia experienced a short disruption in services, with clients being referred to other locations until temporary service facilities could be established at the site. Temporary offices were established and regular patient volume has resumed at that site while the permanent building was being repaired.

The total loss was approximately \$1,477,000 in property damage and business interruption. The destroyed assets were removed from the financial statements and the replacement assets were purchased with the insurance proceeds. The total insurance proceeds were \$2,304,000, which exceeded the net depreciated value of the destroyed assets by \$826,604 which was recorded as a gain on the transaction.

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

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**Note 17 - Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Company has evaluated subsequent events through November 20, 2009, which is the date the financial statements are issued.

**STATE COMPLIANCE SECTION**

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**REPORT ON INTERNAL CONTROL**

LaFayette Apartments  
Clinton Street Apartments  
Killingsworth Group Homes  
Andrea Place Apartments  
Garlington Plaza Apartments  
Faulkner Apartments

Projects Owned By  
Cascadia Behavioral Healthcare, Inc.

To the Board of Directors  
Cascadia Behavioral Healthcare, Inc.  
Portland, Oregon

We have audited the consolidated financial statements of Cascadia Behavioral Healthcare, Inc. (a non-profit organization) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated November 20, 2009.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and the Department's *Audit Guide for Section 8 Multi-Unit Housing Projects* (the "Audit Guide"). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the project is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audits, we obtained an understanding of the design of relevant controls and determined whether they had been placed in operation, and we assessed internal control risks in order to determine our auditing procedures for the purpose of expressing our opinion of the project's financial statements and testing its compliance with specific requirements applicable to its Section 8 Program and to report on internal control in accordance with the provisions of the Audit Guide and not to provide assurance on internal control.

We performed tests of controls, as required by the Audit Guide, to evaluate the effectiveness of the design and operation of controls that we considered relevant to preventing or detecting material noncompliance with specific requirements applicable to the project's Section 8 Program. Our procedures were less in scope than would be necessary to render an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operations that we considered to be material weaknesses as defined above.

We understand that: (1) the objectives of the control procedures referred to in the second paragraph of this report are to provide assurance concerning compliance with the Department's related requirements; (2) such procedures are considered by Housing and Community Services to be adequate for its purposes in accordance with the Department's and related regulations; and (3) procedures that do not accomplish such objectives indicate some inadequacy for such purposes. The results of our tests disclosed instances of noncompliance that are required to be reported herein and are described in the accompanying exit conference schedule.

This report is intended for the information of management and the Department and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Moss Adams LLP*

Portland, Oregon  
November 20, 2009

**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

LaFayette Apartments  
Clinton Street Apartments  
Killingsworth Group Homes  
Andrea Place Apartments  
Garlington Plaza Apartments  
Faulkner Apartments

Projects Owned By  
Cascadia Behavioral Healthcare, Inc.

To the Board of Directors  
Cascadia Behavioral Healthcare  
Portland, Oregon

We have audited the consolidated financial statements of Cascadia Behavioral Healthcare, Inc. (a non-profit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 20, 2009.


We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the project is the responsibility of the project's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the project's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We also considered those compliance matters comprehended in the "Audit Compliance Requirement Questionnaire" (Questionnaire), which is set forth in Appendix 1 of the Department's *Section 8 Multi-Unit Housing Projects Audit Guide* (the "Audit Guide")

The results of our tests disclosed instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or the Questionnaire and are described in the accompanying exit conference schedule.

This report is intended for the information of management and the Department. However, this report is a matter of public record and its distribution is not limited.

  
Portland, Oregon  
November 20, 2009

## EXIT CONFERENCE

LaFayette Apartments  
Clinton Street Apartments  
Killingsworth Group Homes  
Andrea Place Apartments  
Garlington Plaza Apartments  
Faulkner Apartments

Projects Owned By  
Cascadia Behavioral Healthcare, Inc.

- 1.) Barbara Roberts/Killingsworth did not have sufficient funds to pay the next month's escrow payment. The account held \$12, the next months payment was \$238.

**REPLY** This is a reserve for replacement fund and has not required payments being made from this reserve account.

- 2.) Cash funds are co-mingled and no subsidiary ledger to track the cash accounts. In addition, separate cash accounts do not exist in the name of the projects. However in July of 2009 individual bank accounts were established for each project

**REPLY** . In July 2009, separate general ledgers were established for each property and going forward from this last year-end, cash will be maintained in separate accounts. The individual bank accounts will provide the subsidiary ledger information needed to comply with these requirements.

- 3.) Accounts payable was co-mingled in Cascadia Behavioral and no-subsiary ledger exists for each project through June of 2009.

**REPLY** Beginning July, 2009, with the creation of separate general ledgers for each property, accounts payable will be separated by property.

- 4.) Cascadia did not track the balance sheet for the entities separately until June 2009.

**REPLY** With the late finish of the prior year-end audit, management had a short time period to get the separate balance sheets established. They were completed just past this year-end.

- 5.) Surplus cash calculation is not performed, as the cash is co-mingled. Therefore, no request for distribution of surplus cash was made.

**REPLY** Due to no separate cash accounts or general ledgers available for each property, this calculation was not possible. With the establishment of the general ledgers, the surplus cash calculation will be able to be performed.

- 6.) Security deposits repayments have not included interest earnings for the period of deposit. Interest earnings have been remitted to the Department's Low Income Housing Fund as indicated on the management agreement.

**REPLY** Management will review this issue and ensure proper accounting of interest earned on deposit accounts.

- 7.) The projects have not been consistently enforcing the collection policy. Approximately 88% of accounts receivable from tenants were greater than 90 days old. This did include amounts related to subsidies, unit damage and rent. Rent payments over 30 days was approximately 10% of total tenant A/R

**REPLY** The company has been working on a project to clean up the account receivable balances and ensure timely receipt of rental payments. The make up of the property tenants can sometimes prove difficult to collect past due amounts from. Management remains diligent in following up on account balances and either ensure collectability or set up the proper bad debt reserves.

- 8.) Accounts payable was not less than 30 days old. 24% of payables had outstanding invoices greater than 30 days, however, all other amounts were less than 30 days.

**REPLY** One-fourth of the accounts payable balance was over 30 days old. At times internal processing and the acquisition of proper approvals can take some time and push the outstanding balances past 30 days. This is usually a small percent of the accounts, as noted here, and are promptly followed up on when recognized.

- 9.) The projects received approval from the Housing and Community Services for rate increases as of September 1, 2008. Cascadia did not implement the rate increases and billed under old fee schedules.

**REPLY** This was an oversight on the part of the asset manager assigned to this property. Management has since established a dedicated Compliance Manager position, part of whose responsibility will be to ensure proper rent documentation and rental increase implementation.

**CERTIFICATION OF BORROWER**

LaFayette Apartments  
Clinton Street Apartments  
Killingsworth Group Homes  
Andrea Place Apartments  
Garlington Plaza Apartments  
Faulkner Apartments

Projects Owned By  
Cascadia Behavioral Healthcare, Inc.  
93-0770054

**I HEREBY CERTIFY** that I have prepared, or caused to be prepared, and am responsible for the contents of the accompanying financial statements and supplemental data of the projects listed above owned by Cascadia Behavioral Healthcare, Inc. for periods ending June 30, 2009 and 2008, to the best of my knowledge and belief, they are complete and accurate.

I certify that **all** Transfers of Ownership and/or secondary financing that occurred during (FYE 2009 and FYE 2008) were authorized in writing by Oregon Housing and Community Services (the "Department").

Further, I hereby certify that I am the authorized representatives of Cascadia Behavioral Healthcare, Inc. to assume this responsibility.

By: *Cascadia Behavioral Healthcare, Inc.*

By: \_\_\_\_\_  
Jeffrey Peterson, Controller

Date: \_\_\_\_\_

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.  
CALCULATION OF SURPLUS CASH  
AS OF JUNE 30, 2009 AND JUNE 30, 2008**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
Cash as of June 30, 2008	\$ 105,544	\$ 69,255	\$ 70,377	\$ 30,028	\$ 26,334	\$ 43,448	\$ 344,986
Accounts payable	(13,891)	(2,731)	(4,376)	(7,062)	(4,339)	(13,447)	(45,846)
Interest payable (15 days)	(1,190)	(420)	(491)	(1,197)	(722)	(1,575)	(5,595)
Mortgage notes payable (30 days)	(1,632)	(658)	(368)	(1,319)	(1,837)	(1,046)	(6,859)
Surplus Cash at June 30, 2008	<u>\$ 88,831</u>	<u>\$ 65,446</u>	<u>\$ 65,142</u>	<u>\$ 20,450</u>	<u>\$ 19,436</u>	<u>\$ 27,380</u>	<u>\$ 286,686</u>
Cash as of June 30, 2009	\$ 96,842	\$ 62,258	\$ 73,538	\$ 30,143	\$ 43,724	\$ 38,794	\$ 345,299
Accounts payable	(17,242)	(1,528)	(2,979)	(11,656)	(9,766)	(2,587)	(45,758)
Interest payable (15 days)	(1,148)	(408)	(478)	(1,152)	(683)	(1,538)	(5,407)
Mortgage notes payable (30 days)	(1,707)	(683)	(397)	(1,389)	(1,878)	(1,115)	(7,169)
Escrow deficiency	-	-	(226)	-	-	-	(226)
Surplus Cash at June 30, 2009	<u>\$ 76,745</u>	<u>\$ 59,639</u>	<u>\$ 69,458</u>	<u>\$ 15,946</u>	<u>\$ 31,397</u>	<u>\$ 33,554</u>	<u>\$ 286,739</u>

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULE OF FINANCIAL POSITION**  
**JUNE 30, 2009**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
<b>CURRENT ASSETS</b>							
Cash	\$ 96,842	\$ 62,258	\$ 73,538	\$ 30,143	\$ 43,724	\$ 38,794	\$ 345,299
Tenant accounts receivable, net of allowance	5,842	-	-	664	4,312	114	10,932
Prepaid expenses and deposits	8,878	(93)	(358)	(161)	3,957	(459)	11,764
Total current assets	<u>111,562</u>	<u>62,165</u>	<u>73,180</u>	<u>30,646</u>	<u>51,993</u>	<u>38,449</u>	<u>367,995</u>
<b>PROPERTY, BUILDINGS AND EQUIPMENT</b>							
Land, buildings and equipment	1,062,603	1,005,528	768,389	480,955	266,154	959,229	4,542,858
Accumulated depreciation	(598,702)	(408,887)	(210,691)	(74,579)	(74,361)	(307,681)	(1,674,901)
	<u>463,901</u>	<u>596,641</u>	<u>557,698</u>	<u>406,376</u>	<u>191,793</u>	<u>651,548</u>	<u>2,867,957</u>
<b>OTHER ASSETS</b>							
Escrow deposit	432	3,682	12	1,854	396	2,609	8,985
Replacement reserve	65,739	41,200	35,501	47,050	52,965	58,946	301,401
Total assets	<u>\$ 641,634</u>	<u>\$ 703,688</u>	<u>\$ 666,391</u>	<u>\$ 485,926</u>	<u>\$ 297,147</u>	<u>\$ 751,552</u>	<u>\$ 3,546,338</u>
<b>CURRENT LIABILITIES</b>							
Current portion of long-term debt	\$ 20,484	\$ 8,194	\$ 4,759	\$ 16,663	\$ 22,537	\$ 13,377	\$ 86,014
Accounts payable and accrued expenses	17,242	1,528	2,979	11,656	9,766	2,587	45,758
Total current liabilities	<u>37,726</u>	<u>9,722</u>	<u>7,738</u>	<u>28,319</u>	<u>32,303</u>	<u>15,964</u>	<u>131,772</u>
<b>OTHER LIABILITIES</b>							
Long-term debt, net of current portion	514,754	261,035	152,266	386,734	371,519	500,532	2,186,840
Equity gap financing	-	158,959	308,142	203,653	-	50,000	720,754
Total liabilities	<u>514,754</u>	<u>419,994</u>	<u>460,408</u>	<u>590,387</u>	<u>371,519</u>	<u>550,532</u>	<u>2,907,594</u>
<b>NET ASSETS</b>							
Unrestricted	89,154	273,972	198,245	(147,169)	(106,675)	108,672	416,199
Temporarily restricted	-	-	-	14,389	-	76,384	90,773
Total net assets	<u>89,154</u>	<u>273,972</u>	<u>198,245</u>	<u>(132,780)</u>	<u>(106,675)</u>	<u>185,056</u>	<u>506,972</u>
Total liabilities and net assets	<u>\$ 641,634</u>	<u>\$ 703,688</u>	<u>\$ 666,391</u>	<u>\$ 485,926</u>	<u>\$ 297,147</u>	<u>\$ 751,552</u>	<u>\$ 3,546,338</u>

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULE OF FINANCIAL POSITION**  
**JUNE 30, 2008**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
<b>CURRENT ASSETS</b>							
Cash	\$ 105,544	\$ 69,255	\$ 70,377	\$ 30,028	\$ 26,334	\$ 43,448	\$ 344,986
Tenant accounts receivable, net of allowance	(653)	-	1,463	247	3,759	(826)	3,990
Prepaid expenses and deposits	-	-	-	-	-	-	-
Total current assets	<u>104,891</u>	<u>69,255</u>	<u>71,840</u>	<u>30,275</u>	<u>30,093</u>	<u>42,622</u>	<u>348,976</u>
<b>PROPERTY, BUILDINGS AND EQUIPMENT</b>							
Land, buildings and equipment	1,062,603	1,005,528	768,389	480,955	266,154	959,229	4,542,858
Accumulated depreciation	(559,227)	(370,205)	(179,197)	(55,868)	(62,444)	(278,153)	(1,505,094)
	<u>503,376</u>	<u>635,323</u>	<u>589,192</u>	<u>425,087</u>	<u>203,710</u>	<u>681,076</u>	<u>3,037,764</u>
<b>OTHER ASSETS</b>							
Escrow deposit	435	3,630	9	2,128	388	2,579	9,169
Replacement reserve	70,065	36,193	32,130	42,382	47,809	53,107	281,686
Total assets	<u>\$ 678,767</u>	<u>\$ 744,401</u>	<u>\$ 693,171</u>	<u>\$ 499,872</u>	<u>\$ 282,000</u>	<u>\$ 779,384</u>	<u>\$ 3,677,595</u>
<b>CURRENT LIABILITIES</b>							
Current portion of long-term debt	\$ 19,578	\$ 7,898	\$ 4,420	\$ 15,824	\$ 22,042	\$ 12,550	\$ 82,312
Accounts payable and accrued expenses	13,891	2,731	4,376	7,062	4,339	13,447	45,846
Total current liabilities	<u>33,469</u>	<u>10,629</u>	<u>8,796</u>	<u>22,886</u>	<u>26,381</u>	<u>25,997</u>	<u>128,158</u>
<b>OTHER LIABILITIES</b>							
Long-term debt, net of current portion	535,240	269,229	157,026	403,399	394,056	513,910	2,272,860
Equity gap financing	-	158,959	308,142	203,653	-	50,000	720,754
Total liabilities	<u>535,240</u>	<u>428,188</u>	<u>465,168</u>	<u>607,052</u>	<u>394,056</u>	<u>563,910</u>	<u>2,993,614</u>
<b>NET ASSETS</b>							
Unrestricted	110,058	305,584	219,207	(145,583)	(138,437)	108,341	459,170
Temporarily restricted	-	-	-	15,517	-	81,136	96,653
Total net assets	<u>110,058</u>	<u>305,584</u>	<u>219,207</u>	<u>(130,066)</u>	<u>(138,437)</u>	<u>189,477</u>	<u>555,823</u>
Total liabilities and net assets	<u>\$ 678,767</u>	<u>\$ 744,401</u>	<u>\$ 693,171</u>	<u>\$ 499,872</u>	<u>\$ 282,000</u>	<u>\$ 779,384</u>	<u>\$ 3,677,595</u>

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULE OF REVENUES AND EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
Operating revenues, gains, and other support							
Rental income	\$ 153,747	\$ 68,505	\$ 65,149	\$ 112,336	\$ 116,233	\$ 113,031	\$ 629,001
Laundry and vending revenue	1,922	-	-	-	249	767	2,938
Contributions	-	-	-	-	-	-	-
Interest earned on reserves	986	647	516	714	730	892	4,485
Total operating revenues, gains and other support	<u>156,655</u>	<u>69,152</u>	<u>65,665</u>	<u>113,050</u>	<u>117,212</u>	<u>114,690</u>	<u>636,424</u>
Expenses							
Administrative							
Property management fee	10,966	6,224	5,910	10,174	10,549	10,322	54,145
Telephones and pagers	3,442	-	-	-	-	-	3,442
Security	698	870	1,038	900	2,973	1,521	8,000
Bad debt	1,459	1,007	272	231	120	49	3,138
Professional services	459	-	-	50	135	50	694
	<u>17,024</u>	<u>8,101</u>	<u>7,220</u>	<u>11,355</u>	<u>13,777</u>	<u>11,942</u>	<u>69,419</u>
Maintenance							
Repairs	57,352	12,946	14,286	28,741	26,520	9,665	149,510
Grounds contracts	3,255	3,118	799	6,355	2,460	63	16,050
Janitorial contracts and supplies	401	-	177	-	-	-	578
Exterminating	1,020	636	528	875	546	756	4,361
Equipment and furnishings	-	-	-	-	-	-	-
	<u>62,028</u>	<u>16,700</u>	<u>15,790</u>	<u>35,971</u>	<u>29,526</u>	<u>10,484</u>	<u>170,499</u>
Utilities							
Water and sewer	22,889	6,710	6,296	6,227	7,203	8,632	57,957
Electricity	6,199	16,891	9,547	8,258	6,855	8,534	56,284
Garbage and trash removal	2,319	2,002	2,896	3,911	2,345	4,715	18,188
Natural gas	-	-	-	2,683	2,316	7,977	12,976
	<u>31,407</u>	<u>25,603</u>	<u>18,739</u>	<u>21,079</u>	<u>18,719</u>	<u>29,858</u>	<u>145,405</u>
Taxes and insurance							
Insurance	3,219	1,581	1,585	1,724	2,298	2,602	13,009
Taxes, licenses, and permits	524	133	-	165	199	50	1,071
	<u>3,743</u>	<u>1,714</u>	<u>1,585</u>	<u>1,889</u>	<u>2,497</u>	<u>2,652</u>	<u>14,080</u>
Depreciation and amortization	39,475	38,682	31,494	18,711	11,917	29,528	169,807
Interest expense	23,882	9,964	11,799	25,631	9,014	29,895	110,185
Total expenses	<u>177,559</u>	<u>100,764</u>	<u>86,627</u>	<u>114,636</u>	<u>85,450</u>	<u>114,359</u>	<u>679,395</u>
Change in net assets	<u>\$ (20,904)</u>	<u>\$ (31,612)</u>	<u>\$ (20,962)</u>	<u>\$ (1,586)</u>	<u>\$ 31,762</u>	<u>\$ 331</u>	<u>\$ (42,971)</u>

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.  
SCHEDULE OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2008**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
Operating revenues, gains, and other support							
Rental income	\$ 147,729	\$ 86,352	\$ 68,988	\$ 110,808	\$ 113,520	\$ 130,356	\$ 657,753
Laundry and vending revenue	1,408	-	-	-	-	-	1,408
Contributions	-	-	-	-	-	-	-
Interest earned on reserves	1,741	952	690	963	1,117	1,229	6,692
Total operating revenues, gains and other support	<u>150,878</u>	<u>87,304</u>	<u>69,678</u>	<u>111,771</u>	<u>114,637</u>	<u>131,585</u>	<u>665,853</u>
Expenses							
Administrative							
Property management fee	10,341	7,772	6,209	9,973	10,217	11,732	56,244
Telephones and pagers	1,963	-	-	-	1,483	7,954	11,400
Security	900	1,134	833	853	2,085	1,134	6,939
Bad debt	-	-	1,000	-	2,000	-	3,000
Professional services	-	-	-	948	-	960	1,908
	<u>13,204</u>	<u>8,906</u>	<u>8,042</u>	<u>11,774</u>	<u>15,785</u>	<u>21,780</u>	<u>79,491</u>
Maintenance							
Repairs	22,880	11,968	9,389	8,230	16,674	25,407	94,548
Grounds contracts	3,258	3,773	740	2,585	1,980	2,754	15,090
Janitorial contracts and supplies	715	386	4,365	237	6,572	547	12,822
Exterminating	1,245	858	492	1,100	413	756	4,864
Equipment and furnishings	83	444	-	-	-	-	527
	<u>28,181</u>	<u>17,429</u>	<u>14,986</u>	<u>12,152</u>	<u>25,639</u>	<u>29,464</u>	<u>127,851</u>
Utilities							
Water and sewer	19,681	6,677	7,281	9,310	5,524	8,808	57,281
Electricity	5,705	18,034	8,774	7,828	6,313	8,307	54,961
Garbage and trash removal	2,101	1,990	3,214	3,720	2,351	4,422	17,798
Natural gas	59	-	-	2,874	1,610	8,510	13,053
	<u>27,546</u>	<u>26,701</u>	<u>19,269</u>	<u>23,732</u>	<u>15,798</u>	<u>30,047</u>	<u>143,093</u>
Taxes and insurance							
Insurance	2,784	2,554	1,354	2,752	2,900	4,060	16,404
Taxes, licenses, and permits	529	-	65	250	130	55	1,029
	<u>3,313</u>	<u>2,554</u>	<u>1,419</u>	<u>3,002</u>	<u>3,030</u>	<u>4,115</u>	<u>17,433</u>
Depreciation and amortization	39,475	31,476	26,495	9,552	10,418	22,237	139,653
Interest expense	24,753	10,276	12,158	26,469	8,446	30,669	112,771
Total expenses	<u>136,472</u>	<u>97,342</u>	<u>82,369</u>	<u>86,681</u>	<u>79,116</u>	<u>138,312</u>	<u>620,292</u>
Change in net assets	<u>\$ 14,406</u>	<u>\$ (10,038)</u>	<u>\$ (12,691)</u>	<u>\$ 25,090</u>	<u>\$ 35,521</u>	<u>\$ (6,727)</u>	<u>\$ 45,561</u>

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.  
SCHEDULE OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
Unrestricted net assets, July 1, 2008	\$ 95,652	\$ 315,622	\$ 231,898	\$ (170,673)	\$ (173,958)	\$ 115,068	\$ 413,609
Change in net assets	14,406	(10,038)	(12,691)	25,090	35,521	(6,727)	45,561
Unrestricted net assets, June 30, 2008	110,058	305,584	219,207	(145,583)	(138,437)	108,341	459,170
Change in net assets	(20,904)	(31,612)	(20,962)	(1,586)	31,762	331	(42,971)
Unrestricted net assets, June 30, 2009	<u>\$ 89,154</u>	<u>\$ 273,972</u>	<u>\$ 198,245</u>	<u>\$ (147,169)</u>	<u>\$ (106,675)</u>	<u>\$ 108,672</u>	<u>\$ 416,199</u>
Temporarily restricted net assets, July 1, 2008	\$ -	\$ -	\$ -	\$ 16,645	\$ -	\$ 85,888	\$ 102,533
Assets released from restriction	-	-	-	(1,128)	-	(4,752)	(5,880)
Temporarily restricted net assets, June 30, 2008	-	-	-	15,517	-	81,136	96,653
Assets released from restriction	-	-	-	(1,128)	-	(4,752)	(5,880)
Temporarily restricted net assets, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,389</u>	<u>\$ -</u>	<u>\$ 76,384</u>	<u>\$ 90,773</u>

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULE OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
Change in net assets	\$ (20,904)	\$ (31,612)	\$ (20,962)	\$ (1,586)	\$ 31,762	\$ 331	\$ (42,971)
Release of temporarily restricted net assets	-	-	-	(1,128)	-	(4,752)	(5,880)
Cash flows from operating activities							
Depreciation	39,475	38,682	31,494	18,711	11,917	29,528	169,807
Accounts receivable, net of allowance	(6,495)	-	1,463	(417)	(553)	(940)	(6,942)
Prepaid expenses and deposits	(8,878)	93	358	161	(3,957)	459	(11,764)
Accounts payable and accrued expenses	3,351	(1,203)	(1,397)	4,594	5,427	(10,860)	(88)
Net cash used by operating activities	6,549	5,960	10,956	20,335	44,596	13,766	102,162
Cash flows from investing activities							
Escrow deposit	3	(52)	(3)	274	(8)	(30)	184
Replacement reserve	4,326	(5,007)	(3,371)	(4,668)	(5,156)	(5,839)	(19,715)
Net cash used by investing activities	4,329	(5,059)	(3,374)	(4,394)	(5,164)	(5,869)	(19,531)
Cash flows from financing activities							
Payments on long-term debt	(19,580)	(7,898)	(4,421)	(15,826)	(22,042)	(12,551)	(82,318)
Net cash used by financing activities	(19,580)	(7,898)	(4,421)	(15,826)	(22,042)	(12,551)	(82,318)
Net change in cash and cash equivalents	(8,702)	(6,997)	3,161	115	17,390	(4,654)	313
Cash available for operations, at beginning of year	105,544	69,255	70,377	30,028	26,334	43,448	344,986
Cash available for operations, at end of year	\$ 96,842	\$ 62,258	\$ 73,538	\$ 30,143	\$ 43,724	\$ 38,794	\$ 345,299

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULE OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	LaFayette Apartments	Clinton Street Apartments	Killingsworth Group Homes	Andrea Place Apartments	Garlington Plaza Apartments	Faulkner Apartments	Total
Change in net assets	\$ 14,406	\$ (10,038)	\$ (12,691)	\$ 25,090	\$ 35,521	\$ (6,727)	\$ 45,561
Release of temporarily restricted net assets	-	-	-	(1,128)	-	(4,752)	(5,880)
Cash flows from operating activities							
Depreciation	39,475	31,476	26,495	9,552	10,418	22,237	139,653
Accounts receivable, net of allowance	1,492	-	5,161	2,248	(993)	1,498	9,406
Prepaid expenses and deposits	7,471	-	-	-	3,560	-	11,031
Accounts payable and accrued expenses	(714)	(5,358)	2,389	282	562	10,802	7,963
Net cash used by operating activities	62,130	16,080	21,354	36,044	49,068	23,058	207,734
Cash flows from investing activities							
Purchase of land, buildings and equipment	-	-	-	-	(3,868)	-	(3,868)
Escrow deposit	(10)	(1,019)	7	468	(14)	385	(183)
Replacement reserve	(1,336)	8,939	(3,548)	(4,897)	(2,443)	(4,373)	(7,658)
Net cash used by investing activities	(1,346)	7,920	(3,541)	(4,429)	(6,325)	(3,988)	(11,709)
Cash flows from financing activities							
Payment on equity gap financing	-	-	(385)	-	-	-	(385)
Payments on long-term debt	(18,709)	(7,586)	(4,064)	(14,987)	(21,559)	(11,777)	(78,682)
Net cash used by financing activities	(18,709)	(7,586)	(4,449)	(14,987)	(21,559)	(11,777)	(79,067)
Net change in cash and cash equivalents	42,075	16,414	13,364	16,628	21,184	7,293	116,958
Cash available for operations, at beginning of year	63,469	52,841	57,013	13,400	5,150	36,155	228,028
Cash available for operations, at end of year	\$ 105,544	\$ 69,255	\$ 70,377	\$ 30,028	\$ 26,334	\$ 43,448	\$ 344,986