



**CASCADIA BEHAVIORAL  
HEALTHCARE, INC.**

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

**JUNE 30, 2010 AND 2009**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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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, 2010 and 2009, 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, 2010 and 2009 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 30, 2010 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 30 to 44 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 30, 2010

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

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**ASSETS**

|   | <b>June 30,</b>             |                             |
|---|-----------------------------|-----------------------------|
|   | <b>2010</b>                 | <b>2009</b>                 |
|   | <u>          </u>           | <u>          </u>           |
| <b>CURRENT ASSETS</b>                     |                             |                             |
| Cash available for operations             | \$ 1,492,632                | \$ 329,482                  |
| Cash held on behalf of others             | 314,392                     | 262,346                     |
|   | <u>          </u>           | <u>          </u>           |
| Total cash                                | 1,807,024                   | 591,828                     |
|   | <u>          </u>           | <u>          </u>           |
| Accounts receivable, net of allowance     | 1,765,447                   | 4,396,631                   |
| Receivable from affiliated organizations  | 54,341                      | 25,314                      |
| Prepaid expenses and deposits             | 223,165                     | 166,875                     |
| Other receivables                         | 1,446                       | 1,271                       |
|   | <u>          </u>           | <u>          </u>           |
| Total current assets                      | 3,851,423                   | 5,181,919                   |
|   | <u>          </u>           | <u>          </u>           |
| <b>LAND, BUILDINGS AND EQUIPMENT</b>      |                             |                             |
| Land, buildings and equipment             | 20,474,404                  | 20,083,519                  |
| Accumulated depreciation and amortization | (7,196,430)                 | (6,233,480)                 |
|   | <u>          </u>           | <u>          </u>           |
|   | 13,277,974                  | 13,850,039                  |
|   | <u>          </u>           | <u>          </u>           |
| <b>OTHER ASSETS</b>                       |                             |                             |
| Restricted cash                           | 1,049,450                   | 1,278,391                   |
| Pledges receivable                        | 721,068                     | 667,152                     |
| Related party receivable                  | 534,379                     | 520,184                     |
|   | <u>          </u>           | <u>          </u>           |
|   | 2,304,897                   | 2,465,727                   |
|   | <u>          </u>           | <u>          </u>           |
| <b>TOTAL ASSETS</b>                       | <u><u>\$ 19,434,294</u></u> | <u><u>\$ 21,497,685</u></u> |

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

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**LIABILITIES AND NET ASSETS**

|  | <b>June 30,</b>      |                      |
|--|----------------------|----------------------|
|  | <b>2010</b>          | <b>2009</b>          |
| <b>CURRENT LIABILITIES</b>             |                      |                      |
| Accounts payable and accrued expenses  | \$ 374,229           | \$ 916,384           |
| Accrued payroll and related expenses   | 1,768,418            | 2,409,163            |
| Accrued paid time off                  | 760,012              | 884,506              |
| Funds held on behalf of others         | 314,392              | 262,346              |
| Interest payable                       | 45,997               | 2,101                |
| Advances payable                       | 108,897              | 166,186              |
| Current portion of long-term debt      | 611,216              | 918,878              |
| Current portion of capital leases      | 46,898               | -                    |
|  | <b>4,030,059</b>     | <b>5,559,564</b>     |
| <b>OTHER LIABILITIES</b>               |                      |                      |
| Long-term debt, net of current portion | 9,280,035            | 9,533,179            |
| Capital leases, net of current portion | 88,037               | -                    |
| Equity gap financing                   | 2,420,622            | 2,425,474            |
|  | <b>11,788,694</b>    | <b>11,958,653</b>    |
|  | <b>15,818,753</b>    | <b>17,518,217</b>    |
| <b>NET ASSETS</b>                      |                      |                      |
| Unrestricted                           | 1,603,816            | 1,975,855            |
| Temporarily restricted                 | 2,011,725            | 2,003,613            |
|  | <b>3,615,541</b>     | <b>3,979,468</b>     |
|  | <b>\$ 19,434,294</b> | <b>\$ 21,497,685</b> |

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

|   | Year Ended June 30, 2010 |                        |                     | Year Ended June 30, 2009 |                        |                     |
|---|--------------------------|------------------------|---------------------|--------------------------|------------------------|---------------------|
|   | Unrestricted             | Temporarily Restricted | Total               | Unrestricted             | Temporarily Restricted | Total               |
| <b>OPERATING REVENUES, GAINS, AND OTHER SUPPORT</b> |                          |                        |                     |                          |                        |                     |
| State of Oregon service fees                        | \$ 11,513,256            | \$ -                   | \$ 11,513,256       | \$ 11,551,364            | \$ -                   | \$ 11,551,364       |
| Title XIX and XVIII service fees                    | 10,397,911               | -                      | 10,397,911          | 10,814,575               | -                      | 10,814,575          |
| Multnomah County service contracts                  | 8,650,172                | -                      | 8,650,172           | 9,781,376                | -                      | 9,781,376           |
| Marion County service contracts                     | (1,269)                  | -                      | (1,269)             | 2,967,767                | -                      | 2,967,767           |
| Program service fees                                | 3,047,353                | -                      | 3,047,353           | 2,463,341                | -                      | 2,463,341           |
| Grants and contributions                            | 1,729,816                | 127,335                | 1,857,151           | 1,563,216                | 145,964                | 1,709,180           |
| Other county and local government service contracts | 1,077,723                | -                      | 1,077,723           | 1,004,283                | -                      | 1,004,283           |
| Gain on disposals and insurance proceeds            | 283,291                  | -                      | 283,291             | 826,604                  | -                      | 826,604             |
| Third-party reimbursements and client fees          | 483,618                  | -                      | 483,618             | 752,318                  | -                      | 752,318             |
| Other contracts                                     | 289,880                  | -                      | 289,880             | 298,089                  | -                      | 298,089             |
| Other   | 121,653                  | -                      | 121,653             | 313,881                  | -                      | 313,881             |
| In-kind contributions                               | 27,015                   | -                      | 27,015              | 47,575                   | -                      | 47,575              |
| Interest  | 10,339                   | -                      | 10,339              | 8,909                    | -                      | 8,909               |
| Total revenues and gains                            | 37,630,758               | 127,335                | 37,758,093          | 42,393,298               | 145,964                | 42,539,262          |
| Net assets released from restrictions               | 119,223                  | (119,223)              | -                   | 211,311                  | (211,311)              | -                   |
| Total revenues, gains and other support             | 37,749,981               | 8,112                  | 37,758,093          | 42,604,609               | (65,347)               | 42,539,262          |
| <b>EXPENSES</b>                                     |                          |                        |                     |                          |                        |                     |
| Program services                                    | 32,622,240               | -                      | 32,622,240          | 35,611,656               | -                      | 35,611,656          |
| Management and general                              | 5,384,522                | -                      | 5,384,522           | 7,441,854                | -                      | 7,441,854           |
| Fundraising   | 115,258                  | -                      | 115,258             | -                        | -                      | -                   |
| Total expenses                                      | 38,122,020               | -                      | 38,122,020          | 43,053,510               | -                      | 43,053,510          |
| <b>CHANGE IN NET ASSETS</b>                         | <u>\$ (372,039)</u>      | <u>\$ 8,112</u>        | <u>\$ (363,927)</u> | <u>\$ (448,901)</u>      | <u>\$ (65,347)</u>     | <u>\$ (514,248)</u> |

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

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|  | <u>Year Ended June 30, 2010</u> |                                   |                     | <u>Year Ended June 30, 2009</u> |                                   |                     |
|--|---------------------------------|-----------------------------------|---------------------|---------------------------------|-----------------------------------|---------------------|
|  | <u>Unrestricted</u>             | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        | <u>Unrestricted</u>             | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
| <b>NET ASSETS AT BEGINNING OF YEAR</b> | \$ 1,975,855                    | \$ 2,003,613                      | \$ 3,979,468        | \$ 2,424,756                    | \$ 2,068,960                      | \$ 4,493,716        |
| Change in net assets                   | <u>(372,039)</u>                | <u>8,112</u>                      | <u>(363,927)</u>    | <u>(448,901)</u>                | <u>(65,347)</u>                   | <u>(514,248)</u>    |
| <b>NET ASSETS AT END OF YEAR</b>       | <u>\$ 1,603,816</u>             | <u>\$ 2,011,725</u>               | <u>\$ 3,615,541</u> | <u>\$ 1,975,855</u>             | <u>\$ 2,003,613</u>               | <u>\$ 3,979,468</u> |

**CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|   | 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                           | \$ 11,528,826          | \$ 2,691,508        | \$ 10,189,085        | \$ 370,548                          | \$ 229,209     | \$ 25,009,176    | \$ 74,423              | \$ 3,356,196           | \$ 3,430,619 | \$ 28,439,795 |
| Professional fees                                   | 226,703                | 10,141              | 4,674                | 50,205                              | -              | 291,723          | 31,989                 | 705,694                | 737,683      | 1,029,406     |
| Subcontract costs                                   | 49,773                 | 26,413              | 3,700                | -                                   | -              | 79,886           | -                      | -                      | -            | 79,886        |
| Office supplies                                     | 81,240                 | 9,108               | 49,712               | 1,432                               | 3,526          | 145,018          | 264                    | 72,958                 | 73,222       | 218,240       |
| Program supplies                                    | 155,188                | 23,024              | 743,739              | 53                                  | 3,339          | 925,343          | -                      | 1,995                  | 1,995        | 927,338       |
| Medical supplies and equipment                      | 41,784                 | 59,727              | 40,195               | 588                                 | -              | 142,294          | -                      | -                      | -            | 142,294       |
| Repairs and maintenance                             | 232,269                | 14,165              | 267,052              | 584,438                             | 809            | 1,098,733        | -                      | 228                    | 228          | 1,098,961     |
| Equipment leases                                    | 71,384                 | 14,823              | 23,818               | 8,431                               | 647            | 119,103          | -                      | 73,529                 | 73,529       | 192,632       |
| Food and related expenses                           | 194,710                | 19,517              | 287,787              | 10,220                              | 716            | 512,950          | -                      | -                      | -            | 512,950       |
| Printing and postage                                | 16,272                 | 848                 | 1,525                | 316                                 | 969            | 19,930           | 19                     | 27,181                 | 27,200       | 47,130        |
| Telephone and utilities                             | 259,982                | 24,473              | 99,761               | 505,238                             | 754            | 890,208          | 360                    | 11,425                 | 11,785       | 901,993       |
| Rent  | 932,139                | 41,682              | 74,497               | 432,478                             | 65,957         | 1,546,753        | -                      | 53,137                 | 53,137       | 1,599,890     |
| Insurance   | 27,043                 | 4,980               | 51                   | 56,355                              | -              | 88,429           | -                      | 340,548                | 340,548      | 428,977       |
| Dues and subscriptions                              | 1,845                  | 17,127              | 320                  | 2,056                               | -              | 21,348           | -                      | 9,605                  | 9,605        | 30,953        |
| Training  | 9,460                  | 575                 | 6,932                | 694                                 | 300            | 17,961           | 927                    | 91,906                 | 92,833       | 110,794       |
| Travel  | 156,111                | 15,574              | 89,282               | 4,890                               | 7,870          | 273,727          | 583                    | 21,125                 | 21,708       | 295,435       |
| Support organization fees                           | -                      | -                   | -                    | -                                   | -              | -                | -                      | -                      | -            | -             |
| Development   | -                      | -                   | -                    | -                                   | -              | -                | 4,829                  | -                      | 4,829        | 4,829         |
| Interest  | 181,321                | 9,943               | -                    | 221,850                             | -              | 413,114          | -                      | 123,489                | 123,489      | 536,603       |
| Other   | (4,762,991)            | 1,198,807           | 4,036,615            | (239,656)                           | 86,899         | 319,674          | 1,864                  | 219,955                | 221,819      | 541,493       |
| Total expenses before depreciation and amortization | 9,403,059              | 4,182,435           | 15,918,745           | 2,010,136                           | 400,995        | 31,915,370       | 115,258                | 5,108,971              | 5,224,229    | 37,139,599    |
| Depreciation and amortization                       | 132,143                | 8,788               | 20,250               | 545,689                             | -              | 706,870          | -                      | 275,551                | 275,551      | 982,421       |
| Total expenses                                      | \$ 9,535,202           | \$ 4,191,223        | \$ 15,938,995        | \$ 2,555,825                        | \$ 400,995     | \$ 32,622,240    | \$ 115,258             | \$ 5,384,522           | \$ 5,499,780 | \$ 38,122,020 |

**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 and amortization | 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 and amortization                       | 198,553                | -                   | -                    | 484,482                             | -                 | 683,035              | -                      | 286,254                | 286,254             | 969,289              |
| Total expenses                                      | <u>\$ 14,087,964</u>   | <u>\$ 6,040,483</u> | <u>\$ 12,506,559</u> | <u>\$ 2,611,896</u>                 | <u>\$ 364,754</u> | <u>\$ 35,611,656</u> | <u>\$ -</u>            | <u>\$ 7,441,854</u>    | <u>\$ 7,441,854</u> | <u>\$ 43,053,510</u> |

See accompanying notes.

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

|  | <b>Year Ended June 30,</b> |                    |
|--|----------------------------|--------------------|
|  | <b>2010</b>                | <b>2009</b>        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                            |                    |
| Change in net assets                                       | \$ (363,927)               | \$ (514,248)       |
| Adjustments to reconcile change in net assets to net cash  |                            |                    |
| from operating activities                                  |                            |                    |
| Depreciation and amortization                              | 982,421                    | 969,289            |
| Gain on disposals and insurance proceeds                   | (283,291)                  | (826,604)          |
| Changes in assets and liabilities                          |                            |                    |
| Cash held on behalf of others                              | (52,046)                   | 21,450             |
| Accounts receivable, net of allowance                      | 2,631,184                  | 817,180            |
| Receivable from affiliated organizations                   | (29,027)                   | 207,797            |
| Prepaid expenses and deposits                              | (56,290)                   | 87,737             |
| Other receivables  | (175)                      | 34,133             |
| Pledges receivable   | (53,916)                   | (53,876)           |
| Related party receivable                                   | (14,195)                   | (42,067)           |
| Accounts payable and accrued expenses                      | (542,155)                  | (1,646,183)        |
| Accrued payroll and related expenses                       | (640,745)                  | (113,387)          |
| Accrued paid time off                                      | (124,494)                  | (186,577)          |
| Funds held on behalf of others                             | 52,046                     | (21,450)           |
| Interest payable   | 43,896                     | -                  |
| Advances payable   | (57,289)                   | (183,552)          |
| Net cash from operating activities                         | <u>1,491,997</u>           | <u>(1,450,358)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                            |                    |
| Purchase of land, buildings, and equipment                 | (266,113)                  | (1,452,574)        |
| Insurance proceeds from fire                               | 276,638                    | 1,414,367          |
| Proceeds from sale of land, buildings, and equipment       | 12,900                     | -                  |
| Changes in restricted cash reserves                        | 228,941                    | (314,232)          |
| Net cash from investing activities                         | <u>252,366</u>             | <u>(352,439)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                            |                    |
| Payment on equity gap financing                            | (4,852)                    | -                  |
| Payments on long-term debt                                 | (579,697)                  | (285,005)          |
| Proceeds from long-term debt                               | 18,891                     | 1,730,351          |
| Payments on capital leases                                 | (15,555)                   | -                  |
| Net cash from financing activities                         | <u>(581,213)</u>           | <u>1,445,346</u>   |
| <b>NET CHANGE IN CASH</b>                                  | <b>1,163,150</b>           | <b>(357,451)</b>   |
| <b>CASH AVAILABLE FOR OPERATIONS, at beginning of year</b> | <u>329,482</u>             | <u>686,933</u>     |
| <b>CASH AVAILABLE FOR OPERATIONS, at end of year</b>       | <u>\$ 1,492,632</u>        | <u>\$ 329,482</u>  |

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

---

|   | Year Ended June 30, |              |
|---|---------------------|--------------|
|   | 2010                | 2009         |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>           |                     |              |
| Cash paid for interest  | \$ 492,707          | \$ 513,993   |
| <b>SUPPLEMENTAL DISCLOSURE OF NON CASH ACTIVITY</b>               |                     |              |
| Acquisition of equipment through capital lease                    | \$ 150,490          | \$ -         |
| Transfer of long-term debt and equipment to<br>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 and Clackamas Counties in Oregon. As part of Cascadia’s mission, the organization operates 6 affordable housing projects which 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, 2010 and 2009, 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 individuals across 22 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 consolidated financial statements include 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 the discount for present value on 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. No contributed services were recorded during the year ended June 30, 2010. During the year ended June 30, 2009, \$16,135 in contributed services was recorded.

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, 2010 and 2009, \$27,015 and \$31,440, 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.

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

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Cash held on behalf of 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 \$314,392 and \$262,346 as of June 30, 2010 and 2009, 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 as of June 30, 2009, of restricted funds to cover self insured unemployment claims. There were no restricted funds required for self insurance as of June 30, 2010, as the organization is no longer self insured (see Note 14).

**FASB codification** – On July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) became the single authoritative source for nongovernmental U.S. generally accepted accounting principles (GAAP). The ASC supersedes all previous authoritative GAAP applicable to the Organization and is effective for interim and annual periods ended after September 15, 2009.

**Fair value measurements** – Effective January 1, 2008, the Organization adopted ASC 820, *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. ASC 820 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 ASC 820, 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.

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

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

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.

ASC 820 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:

*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.

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

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

## **CASCADIA BEHAVIORAL HEALTHCARE, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Related party receivable** – Cascadia has performed services for Cascadia Housing, Inc. to assist them with their development of certain housing partnerships which are owned by Cascadia Housing, Inc. (see Note 12). Cascadia Housing, Inc. has contracts with two housing partnerships to provide development services which 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.

**Land, buildings and equipment** – Land, buildings and equipment are carried at cost, and at market value when acquired by gift. Major renewals or improvements over \$5,000 and with a useful life of two years or greater are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. Depreciation and amortization are 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 5 to 10 years for furniture and equipment.

The Company leases equipment under capital leases. Total assets under capital lease were approximately \$150,490 with accumulated amortization of \$10,033 as of June 30, 2010. There were no assets under capital lease as of June 30, 2009.

Amortization expense of equipment under capital lease is included in depreciation and amortization expense.

**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.

Cascadia adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on July 1, 2009, which had no financial impact to Cascadia. Cascadia recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Cascadia had no unrecognized tax benefits at June 30, 2010 and 2009.

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

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

Cascadia recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended June 30, 2010 and 2009, Cascadia recognized no interest and penalties.

Cascadia files an exempt organization income tax return in the U.S. federal jurisdiction. Cascadia is no longer subject to income tax examinations by taxing authorities for years before 2006 for its federal and state filings.

**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 consolidated 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 consolidated 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 issued.

The Company has evaluated subsequent events through November 30, 2010, which is the date the financial statements are issued.

**Reclassification** – Certain 2009 balances have been reclassified to conform to the 2010 presentation.

**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.

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

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**NOTE 3 – CONCENTRATIONS – (continued)**

**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 53 and 50 percent of total consolidated revenues for the years ended June 30, 2010 and 2009, respectively). 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 27 and 25 percent of total consolidated revenues for the years ended June 30, 2010 and 2009, respectively). 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.

The following accounts receivable were outstanding as of June 30:

|   | 2010         | 2009         |
|---|--------------|--------------|
| Medicare and Medicaid                           | \$ 1,468,632 | \$ 3,340,217 |
| Multnomah County                                | 407,478      | 735,999      |
| State of Oregon                                 | 363,114      | 651,409      |
| Other   | 317,269      | 74,109       |
| Verity (Multnomah County Managed Mental Health) | 192,151      | 1,180,453    |
| Housing and Urban Development (HUD)             | 147,582      | 86,349       |
| City of Portland                                | 134,447      | 161,679      |
| Grants receivable                               | 73,419       | -            |
| Third-party reimbursements and client fees      | 19,679       | 49,742       |
| Marion County                                   | -            | 538,230      |
|   | 3,123,771    | 6,818,187    |
| Less allowance for doubtful accounts            | (1,358,324)  | (2,421,556)  |
| Total accounts receivable, net of allowance     | \$ 1,765,447 | \$ 4,396,631 |

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

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**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 at June 30:

|                            | <u>2010</u>       | <u>2009</u>       |
|----------------------------|-------------------|-------------------|
| One year to five years     | \$ 178,400        | \$ 178,400        |
| Discount for present value | <u>(2,279)</u>    | <u>(9,333)</u>    |
|                            | <u>176,121</u>    | <u>169,067</u>    |
| More than five years       | 580,200           | 580,200           |
| Discount for present value | <u>(35,253)</u>   | <u>(82,115)</u>   |
|                            | <u>544,947</u>    | <u>498,085</u>    |
| Total pledges receivable   | <u>\$ 721,068</u> | <u>\$ 667,152</u> |
| Discount rate              | 1.29%             | 2.76%             |

**NOTE 6 – LAND, BUILDINGS AND EQUIPMENT**

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

|  | <u>2010</u>          | <u>2009</u>          |
|--|----------------------|----------------------|
| Land   | \$ 2,707,254         | \$ 2,707,254         |
| Buildings and leasehold improvements   | 15,565,651           | 15,363,361           |
| Furniture and equipment  | 2,051,009            | 2,012,904            |
| Capital lease equipment  | <u>150,490</u>       | <u>-</u>             |
|  | 20,474,404           | 20,083,519           |
| Less accumulated depreciation and amortization   | <u>(7,196,430)</u>   | <u>(6,233,480)</u>   |
| Total land, buildings and equipment, net of<br>accumulated depreciation and amortization | <u>\$ 13,277,974</u> | <u>\$ 13,850,039</u> |

## **CASCADIA BEHAVIORAL HEALTHCARE, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **NOTE 6 – LAND, BUILDINGS AND EQUIPMENT – (continued)**

Depreciation and amortization expense was \$982,421 and \$969,289 for the years ended June 30, 2010 and 2009, 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
- McCarthy Place
- Glisan Street Apartments
- Killingsworth Group Homes (Barbara Roberts)
- Nadine's Place
- Pisgah
- Rita May 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, 2010, 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 7).

#### **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 \$2,276,668 and \$2,281,520 as of June 30, 2010 and 2009, respectively.

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

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**NOTE 7 – EQUITY GAP FINANCING – (continued)**

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, 2010 and 2009.

As of June 30, 2010 and 2009, 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, 2010 and 2009.

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

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**NOTE 8 – LONG-TERM DEBT**

The following obligations were outstanding at June 30:

|   | <u>2010</u>         | <u>2009</u>         |
|---|---------------------|---------------------|
| 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.   | \$ 2,378,397        | \$ 2,402,630        |
| 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. | 2,163,155           | 2,263,443           |
| State of Oregon Housing and Community Services Department, serviced by Siuslaw Valley Bank, interest ranges from 2.22% to 7.40%, due in monthly payments of \$13,305, including interest. Due 2024 through 2027, secured by land and buildings.                                 | 1,666,417           | 1,734,327           |
| Bank of the West, interest ranges 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.   | 1,268,207           | 1,293,043           |
| State of Oregon Department of Human Services settlement, agreement due in monthly payments of \$20,000 at 0% interest. Due June 1, 2014. (Note 15)  | 960,000             | 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 buildings.   | 949,763             | 998,246             |
| Meyer Memorial Trust, 2%, entire principal balance and unpaid interest is due December 2014. Secured by land.   | 300,500             | 318,605             |
| West Coast Bank, prime plus 3.25%, due in monthly payments of \$2,935, including interest. Due July 2014, secured by land and building.   | 107,498             | 129,174             |
| GMAC Financial Services, 6.50%, due in monthly payments of \$727 through December 2028, secured by land and building.   | 93,744              | 96,283              |
| U.S. National Bank of Oregon, 4.50%, due in monthly payments of \$1,100 through August 2011, secured by land and building.  | <u>3,570</u>        | <u>16,306</u>       |
|   | 9,891,251           | 10,452,057          |
| Less current portion  | <u>(611,216)</u>    | <u>(918,878)</u>    |
|   | <u>\$ 9,280,035</u> | <u>\$ 9,533,179</u> |

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

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**NOTE 8 – LONG-TERM DEBT – (continued)**

Aggregate maturities of note principal for the five years subsequent to June 30, 2010, are as follows:

|                           |                     |
|---------------------------|---------------------|
| Year ending June 30, 2011 | \$ 611,216          |
| 2012                      | 634,740             |
| 2013                      | 661,695             |
| 2014                      | 684,457             |
| 2015                      | 442,606             |
| Thereafter                | <u>6,856,537</u>    |
|                           | <u>\$ 9,891,251</u> |

The Prime rate was 3.25% as of June 30, 2010.

**NOTE 9 – CAPITAL LEASE OBLIGATIONS**

The Company's lease commitments are for equipment. The future minimum capital lease payments at June 30, 2010 are as follows:

|                                     |                  |
|-------------------------------------|------------------|
| Year ending June 30, 2011           | \$ 58,167        |
| 2012                                | 58,166           |
| 2013                                | <u>37,734</u>    |
|                                     | 154,067          |
| Less amounts representing interest  | <u>(19,132)</u>  |
| Capital lease obligations           | 134,935          |
| Less current portion                | <u>(46,898)</u>  |
| Long-term capital lease obligations | <u>\$ 88,037</u> |

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

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**NOTE 10 – 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 at June 30:

|  | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| Prescott Terrace                                 | \$ 756,667          | \$ 832,332          |
| Emerson Corner                                   | 130,210             | 135,418             |
| Pisgah   | 198,038             | 227,057             |
| Funds required to be used for low income housing | 132,325             | 141,654             |
| Mental health services                           | <u>794,485</u>      | <u>667,152</u>      |
|  | <u>\$ 2,011,725</u> | <u>\$ 2,003,613</u> |

Cascadia received \$127,335 and \$145,964 in temporarily restricted contributions, and incurred \$119,223 and \$211,311 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, 2010 and 2009, respectively.

**NOTE 11 – COMMITMENTS**

Certain Cascadia's program facilities, administrative offices and equipment are leased under operating leases. The leases expire in periods ranging from 3 months to 15 years. Leases which expire are generally renewed or replaced with similar leases.

At June 30, 2010, 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, 2011 | \$ 1,609,812        |
| 2012                      | 1,172,455           |
| 2013                      | 914,736             |
| 2014                      | 953,816             |
| 2015                      | 133,732             |
| Thereafter                | <u>632,964</u>      |
|                           | <u>\$ 5,417,515</u> |

Rent expense was approximately \$1,599,890 and \$1,691,470 for the years ended June 30, 2010 and 2009, respectively.

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

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**NOTE 12 – 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 \$231,904 and \$231,440 for the years ended June 30, 2010 and 2009, respectively.

**NOTE 13 – RELATED PARTY**

**Management agreements** – Cascadia Behavioral Healthcare has management agreements with the following entities:

- Alpine East, Inc.
- Clinton Ridge, LP
- Coburn Woods, Inc.
- EcuNet Housing, Inc.
- Midland Commons Apartments, LP
- MLK Manor, LLC
- Nawikka Court, LLC
- Mt. Hood Special Housing
- 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, 2010 and 2009, Cascadia billed these entities \$368,342 and \$424,898, respectively, for property management fees, accounting services fees and occupancy service fees. Cascadia had a receivable of \$30,707 and \$13,526 as of June 30, 2010 and 2009, respectively, which is included in the receivable from affiliated organization.

**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

## **CASCADIA BEHAVIORAL HEALTHCARE, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **NOTE 13 – RELATED PARTY – (continued)**

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, 2010, 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, 2010, 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, 2010, 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, 2010, Cascadia has not been requested to purchase any interests.

In the event that West Gresham Apartments Limited Partnership shall not receive full property tax abatement during the first ten 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, 2010, 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.

The maximum potential amount of future payments and the term of the guarantor agreements is not determinable as this is not specified in the agreements.

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

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**NOTE 14 – 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, 2010 and 2009, Cascadia estimated \$96,775 and \$465,100, 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 is included in restricted cash as of June 30, 2009, respectively. The letter of credit expired April 2010.

**NOTE 15 – CONTINGENCIES AND LITIGATION**

Amounts received or receivable under Cascadia's contract with Multnomah County and City of Portland 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).

**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, 2010.

## **CASCADIA BEHAVIORAL HEALTHCARE, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **NOTE 15 – CONTINGENCIES AND LITIGATION – (continued)**

**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 effect on the financial position or results of operations of Cascadia.

**Health care reform** – As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal healthcare reform legislation does not affect the 2010 financial statements.

#### **NOTE 16 – DISCONTINUED PROGRAMS**

During the year ended June 30, 2009, 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 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.

#### **NOTE 17 – 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 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 building was reopened in September of 2009.

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

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**NOTE 17 – GARLINGTON FIRE – (continued)**

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 received were \$276,638 and \$1,414,367, for the years ending June 30, 2010 and 2009, respectively. Insurance proceeds exceeded the net depreciated value of the destroyed assets and were recognized a gain on the transaction in the amounts of \$276,638 and \$826,604 for the years ended June 30, 2010 and 2009, respectively.

**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, 2010 and 2009, and have issued our report thereon dated November 30, 2010.

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.

*Miss Adams UP*

Portland, Oregon  
November 30, 2010

## 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, 2010, and have issued our report thereon dated November 30, 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.

Moss Adams LLP

Portland, Oregon  
November 30, 2010

## 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 \$13, the next months payment was \$238.

**REPLY** The amounts deposited into the escrow account are set by the loan servicer and are funded according to their formula. All required insurance payments have been remitted.

- 2.) Cash funds were previously co-mingled and no subsidiary ledger had been established to track the cash accounts of the projects. In July 2009, individual bank accounts were established for the projects. The accounts collected rents and paid invoices during the year. The beginning of year cash balance was not transferred into the account. Instead, Cascadia tracked a due to and due from the projects to off-set the unfunded beginning balance. The account balances reported as of June 30, 2010 are held and funded in separate bank accounts.

**REPLY** Management agrees with this comment and all funds are now tracked and segregated properly.

- 3.) Cascadia did not start tracking the balance sheet for each project separately until June 2009. During the year ended June 30, 2010, management discovered the previously reported land, buildings and equipment along with accumulated depreciation was incorrect for several projects. Therefore, the June 30, 2009 balance sheet was updated to reflect the corrected balances. This correction had the following effect on the June 30, 2009 balance sheet:

- LaFayette Apartments – No correction necessary.
- Clinton Street Apartments – Decrease in net land, buildings and equipment and decrease in beginning unrestricted net assets of \$74,043.
- Killingsworth Group Homes – Increase in net land, buildings and equipment and increase in beginning unrestricted net assets of \$5,000.
- Andrea Place Apartments – Decrease in net land, buildings and equipment and decrease in beginning unrestricted net assets of \$95,954.
- Garlington Plaza Apartments – Increase in net land, buildings and equipment and increase in beginning unrestricted net assets of \$177,597.
- Falkner Apartments – Increase in net land, buildings and equipment and increase in beginning unrestricted net assets of \$1,754.

**REPLY** Management agrees with this comment and expects no additional changes to beginning balances as the property balance sheets are now properly segregated.

- 4.) The tenant files for Clinton Street prior to April were inaccessible and one tenant file requested for Alberta Plaza was not located.

**REPLY** The tenant files for Clinton Street have been archived as the program in that building was closed. The auditors opted to pull an additional file rather than search the archives for the missing file.

- 5.) The collection policy that is formally documented is not enforced for tenants in programs nor with special circumstances.

**REPLY** Several of the projects have “licensed programs” which means that the tenants are under full time care of medical personnel and are in the building as a result of their medical condition. Enforcing collection policies in these programs is necessarily performed in conjunction with the tenant’s case manager. We will update our collection policy to reflect these special circumstances.

- 6.) There were several tenants whose balances due were greater than 30 days old.

**REPLY** Management is aware of late receivables and is working to clean those up with case managers and asset management. All receivables are currently considered collectible.

- 7.) Individual units were not charged in accordance with the approved rent schedule. The total rent revenue includes board revenue.

**REPLY** On the licensed programs, we collect room and board at the same time from the tenants and then remit the board portion to the program. In the year audited, the board portion was not segregated properly, but it has been corrected in FY 2011.

- 8.) The approval for the distribution of surplus cash was not retained. Total surplus cash distributions for the year ended June 30, 2010 was \$228,782 for the six projects.

**REPLY** Management agrees with this comment. However, surplus cash distributions were not made until approval was received and we regret the file was not properly maintained.

- 9.) Actual total write-offs of tenants’ accounts were 1.02% of gross rents, which is greater than 1% of gross rents.

**REPLY** Management agrees with this comment and is working to better manage receivables in conjunction with comment number 6.

**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, 2010 and 2009, 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 2010 and FYE 2009) 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: \_\_\_\_\_  
Beth Barker, CFO

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

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**CALCULATION OF SURPLUS CASH**  
**AS OF JUNE 30, 2010 AND 2009**

|                                  | <b>LaFayette<br/>Apartments</b> | <b>Clinton<br/>Street<br/>Apartments</b> | <b>Killingsworth<br/>Group Homes</b> | <b>Andrea<br/>Place<br/>Apartments</b> | <b>Garlington<br/>Plaza<br/>Apartments</b> | <b>Faulkner<br/>Apartments</b> | <b>Total</b>      |
|----------------------------------|---------------------------------|--|--------------------------------------|--|--|--------------------------------|-------------------|
| 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> |
| Cash as of June 30, 2010         | \$ 20,102                       | \$ 6,083                                 | \$ 18,269                            | \$ 8,229                               | \$ 13,913                                  | \$ 13,408                      | \$ 80,004         |
| Accounts payable                 | (14,584)                        | (8,519)                                  | 618                                  | (652)                                  | (9,764)                                    | (920)                          | (33,821)          |
| Interest payable (15 days)       | (1,104)                         | (397)                                    | (463)                                | (1,105)                                | (641)                                      | (1,497)                        | (5,207)           |
| Mortgage notes payable (30 days) | (1,786)                         | (709)                                    | (427)                                | (1,462)                                | (1,762)                                    | (1,189)                        | (7,335)           |
| Escrow deficiency                | -                               | -  | (225)                                | -                                      | -  | -                              | (225)             |
| Surplus cash at June 30, 2010    | <u>\$ 2,628</u>                 | <u>\$ (3,542)</u>                        | <u>\$ 17,772</u>                     | <u>\$ 5,010</u>                        | <u>\$ 1,746</u>                            | <u>\$ 9,802</u>                | <u>\$ 33,416</u>  |

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULES OF FINANCIAL POSITION**  
**JUNE 30, 2010**

|  | <b>LaFayette<br/>Apartments</b> | <b>Clinton Street<br/>Apartments</b> | <b>Killingsworth<br/>Group Homes</b> | <b>Andrea Place<br/>Apartments</b> | <b>Garlington Plaza<br/>Apartments</b> | <b>Faulkner<br/>Apartments</b> | <b>Total</b>        |
|--|---------------------------------|--------------------------------------|--------------------------------------|------------------------------------|--|--------------------------------|---------------------|
| <b>CURRENT ASSETS</b>                        |                                 |                                      |                                      |                                    |  |                                |                     |
| Cash   | \$ 20,102                       | \$ 6,083                             | \$ 18,269                            | \$ 8,229                           | \$ 13,913                              | \$ 13,408                      | \$ 80,004           |
| Tenant accounts receivable, net of allowance | 4,687                           | 696                                  | 805                                  | 2,806                              | 182                                    | 4,461                          | 13,637              |
| Due from Cascadia                            | 9,161                           | -                                    | -                                    | 2,397                              | 35,933                                 | 19,200                         | 66,691              |
| Prepaid expenses and deposits                | -                               | 281                                  | -                                    | 316                                | -                                      | 442                            | 1,039               |
| Total current assets                         | <u>33,950</u>                   | <u>7,060</u>                         | <u>19,074</u>                        | <u>13,748</u>                      | <u>50,028</u>                          | <u>37,511</u>                  | <u>161,371</u>      |
| <b>LAND, BUILDINGS, AND EQUIPMENT</b>        |                                 |                                      |                                      |                                    |  |                                |                     |
| Land, buildings, and equipment               | 1,077,539                       | 1,015,617                            | 768,389                              | 489,171                            | 475,011                                | 976,289                        | 4,802,016           |
| Accumulated depreciation                     | (639,172)                       | (531,701)                            | (232,186)                            | (192,184)                          | (124,218)                              | (342,729)                      | (2,062,190)         |
|  | <u>438,367</u>                  | <u>483,916</u>                       | <u>536,203</u>                       | <u>296,987</u>                     | <u>350,793</u>                         | <u>633,560</u>                 | <u>2,739,826</u>    |
| <b>OTHER ASSETS</b>                          |                                 |                                      |                                      |                                    |  |                                |                     |
| Security deposit                             | 8,779                           | 4,088                                | -                                    | -                                  | 4,347                                  | -                              | 17,214              |
| Escrow deposit                               | 413                             | 1,985                                | 14                                   | 1,646                              | 429                                    | 2,762                          | 7,249               |
| Replacement reserve                          | 65,349                          | 26,938                               | 37,204                               | 46,824                             | 57,832                                 | 60,291                         | 294,438             |
| <b>TOTAL ASSETS</b>                          | <u>\$ 546,858</u>               | <u>\$ 523,987</u>                    | <u>\$ 592,495</u>                    | <u>\$ 359,205</u>                  | <u>\$ 463,429</u>                      | <u>\$ 734,124</u>              | <u>\$ 3,220,098</u> |
| <b>CURRENT LIABILITIES</b>                   |                                 |                                      |                                      |                                    |  |                                |                     |
| Current portion of long-term debt            | \$ 21,435                       | \$ 8,502                             | \$ 5,123                             | \$ 17,547                          | \$ 21,141                              | \$ 14,264                      | \$ 88,012           |
| Accounts payable and accrued expenses        | 14,584                          | 8,519                                | (618)                                | 652                                | 9,764                                  | 920                            | 33,821              |
| Accrued interest                             | -                               | 7,612                                | -                                    | -                                  | -                                      | -                              | 7,612               |
| Total current liabilities                    | <u>36,019</u>                   | <u>24,633</u>                        | <u>4,505</u>                         | <u>18,199</u>                      | <u>30,905</u>                          | <u>15,184</u>                  | <u>129,445</u>      |
| <b>OTHER LIABILITIES</b>                     |                                 |                                      |                                      |                                    |  |                                |                     |
| Long-term debt, net of current portion       | 493,319                         | 253,574                              | 147,144                              | 369,285                            | 348,478                                | 486,269                        | 2,098,069           |
| Equity gap financing                         | -                               | 157,918                              | 308,141                              | 202,340                            | -                                      | 50,000                         | 718,399             |
| Total liabilities                            | <u>493,319</u>                  | <u>411,492</u>                       | <u>455,285</u>                       | <u>571,625</u>                     | <u>348,478</u>                         | <u>536,269</u>                 | <u>2,816,468</u>    |
| <b>NET ASSETS</b>                            |                                 |                                      |                                      |                                    |  |                                |                     |
| Unrestricted                                 | 17,520                          | 87,862                               | 132,705                              | (243,880)                          | 84,046                                 | 111,039                        | 189,292             |
| Temporarily restricted                       | -                               | -                                    | -                                    | 13,261                             | -                                      | 71,632                         | 84,893              |
| Total net assets                             | <u>17,520</u>                   | <u>87,862</u>                        | <u>132,705</u>                       | <u>(230,619)</u>                   | <u>84,046</u>                          | <u>182,671</u>                 | <u>274,185</u>      |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>      | <u>\$ 546,858</u>               | <u>\$ 523,987</u>                    | <u>\$ 592,495</u>                    | <u>\$ 359,205</u>                  | <u>\$ 463,429</u>                      | <u>\$ 734,124</u>              | <u>\$ 3,220,098</u> |

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

|  | <u>LaFayette<br/>Apartments</u> | <u>Clinton Street<br/>Apartments</u> | <u>Killingsworth<br/>Group Homes</u> | <u>Andrea Place<br/>Apartments</u> | <u>Garlington<br/>Plaza<br/>Apartments</u> | <u>Faulkner<br/>Apartments</u> | <u>Total</u>        |
|--|---------------------------------|--------------------------------------|--------------------------------------|------------------------------------|--|--------------------------------|---------------------|
| <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>LAND, BUILDINGS, AND EQUIPMENT</b>        |                                 |                                      |                                      |                                    |  |                                |                     |
| Land, buildings, and equipment               | 1,062,603                       | 1,015,617                            | 768,389                              | 483,751                            | 475,011                                    | 971,183                        | 4,776,554           |
| Accumulated depreciation                     | (598,702)                       | (493,019)                            | (205,691)                            | (173,329)                          | (105,621)                                  | (317,881)                      | (1,894,243)         |
|  | <u>463,901</u>                  | <u>522,598</u>                       | <u>562,698</u>                       | <u>310,422</u>                     | <u>369,390</u>                             | <u>653,302</u>                 | <u>2,882,311</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             |
| <b>TOTAL ASSETS</b>                          | <u>\$ 641,634</u>               | <u>\$ 629,645</u>                    | <u>\$ 671,391</u>                    | <u>\$ 389,972</u>                  | <u>\$ 474,744</u>                          | <u>\$ 753,306</u>              | <u>\$ 3,560,692</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                          | 199,929                              | 203,245                              | (243,123)                          | 70,922                                     | 110,426                        | 430,553             |
| Temporarily restricted                       | -                               | -                                    | -                                    | 14,389                             | -  | 76,384                         | 90,773              |
| Total net assets                             | <u>89,154</u>                   | <u>199,929</u>                       | <u>203,245</u>                       | <u>(228,734)</u>                   | <u>70,922</u>                              | <u>186,810</u>                 | <u>521,326</u>      |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>      | <u>\$ 641,634</u>               | <u>\$ 629,645</u>                    | <u>\$ 671,391</u>                    | <u>\$ 389,972</u>                  | <u>\$ 474,744</u>                          | <u>\$ 753,306</u>              | <u>\$ 3,560,692</u> |

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULES OF REVENUES AND EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|   | LaFayette<br>Apartments | Clinton Street<br>Apartments | Killingsworth<br>Group Homes | Andrea Place<br>Apartments | Garlington Plaza<br>Apartments | Faulkner<br>Apartments | Total              |
|---|-------------------------|------------------------------|------------------------------|----------------------------|--------------------------------|------------------------|--------------------|
| <b>OPERATING REVENUES, GAINS, AND OTHER SUPPORT</b> |                         |                              |                              |                            |                                |                        |                    |
| Rental income                                       | \$ 149,130              | \$ 46,002                    | \$ 57,855                    | \$ 110,786                 | \$ 133,875                     | \$ 158,508             | \$ 656,156         |
| Laundry and vending revenue                         | 4,860                   | 15                           | -                            | -                          | 1,300                          | -                      | 6,175              |
| Interest earned on reserves                         | 580                     | 364                          | 319                          | 429                        | 480                            | 532                    | 2,704              |
| Total operating revenues, gains and other support   | <u>154,570</u>          | <u>46,381</u>                | <u>58,174</u>                | <u>111,215</u>             | <u>135,655</u>                 | <u>159,040</u>         | <u>665,035</u>     |
| <b>EXPENSES</b>                                     |                         |                              |                              |                            |                                |                        |                    |
| Administrative                                      |                         |                              |                              |                            |                                |                        |                    |
| Property management fee                             | 10,820                  | 4,174                        | 5,236                        | 10,009                     | 12,209                         | 14,378                 | 56,826             |
| Telephones and pagers                               | -                       | -                            | -                            | -                          | -                              | -                      | -                  |
| Security  | 1,781                   | 1,774                        | 2,260                        | 1,409                      | 4,023                          | 1,612                  | 12,859             |
| Bad debt  | 6,032                   | -                            | 15                           | 239                        | 1,402                          | -                      | 7,688              |
| Professional services                               | 1,092                   | 79                           | -                            | -                          | 386                            | -                      | 1,557              |
| Other administrative                                | 3,332                   | 1,406                        | 118                          | 158                        | 245                            | 212                    | 5,471              |
|   | <u>23,057</u>           | <u>7,433</u>                 | <u>7,629</u>                 | <u>11,815</u>              | <u>18,265</u>                  | <u>16,202</u>          | <u>84,401</u>      |
| Maintenance   |                         |                              |                              |                            |                                |                        |                    |
| Repairs   | 26,149                  | 39,899                       | 18,122                       | 12,350                     | 16,990                         | 19,017                 | 132,527            |
| Grounds contracts                                   | 5,020                   | 4,130                        | 2,585                        | 3,925                      | 2,680                          | 1,080                  | 19,420             |
| Janitorial contracts and supplies                   | 877                     | -                            | 97                           | 468                        | 140                            | -                      | 1,582              |
| Exterminating                                       | 1,020                   | 648                          | 540                          | -                          | 225                            | 756                    | 3,189              |
| Equipment and furnishings                           | -                       | 400                          | -                            | -                          | -                              | -                      | 400                |
|   | <u>33,066</u>           | <u>45,077</u>                | <u>21,344</u>                | <u>16,743</u>              | <u>20,035</u>                  | <u>20,853</u>          | <u>157,118</u>     |
| Utilities   |                         |                              |                              |                            |                                |                        |                    |
| Water and sewer                                     | 17,457                  | 8,197                        | 7,577                        | 7,621                      | 9,994                          | 10,352                 | 61,198             |
| Electricity   | 5,401                   | 12,727                       | 8,517                        | 7,605                      | 7,167                          | 9,022                  | 50,439             |
| Garbage and trash removal                           | 2,306                   | 2,652                        | 3,419                        | 4,198                      | 2,100                          | 4,735                  | 19,410             |
| Natural gas   | -                       | -                            | -                            | 1,945                      | 2,019                          | 6,888                  | 10,852             |
|   | <u>25,164</u>           | <u>23,576</u>                | <u>19,513</u>                | <u>21,369</u>              | <u>21,280</u>                  | <u>30,997</u>          | <u>141,899</u>     |
| Taxes and insurance                                 |                         |                              |                              |                            |                                |                        |                    |
| Insurance   | 3,865                   | 1,219                        | 2,025                        | 1,722                      | 3,550                          | 2,394                  | 14,775             |
| Taxes, licenses, and permits                        | 859                     | 570                          | 271                          | 734                        | 887                            | 609                    | 3,930              |
|   | <u>4,724</u>            | <u>1,789</u>                 | <u>2,296</u>                 | <u>2,456</u>               | <u>4,437</u>                   | <u>3,003</u>           | <u>18,705</u>      |
| Depreciation and amortization                       | <u>40,470</u>           | <u>38,682</u>                | <u>26,495</u>                | <u>18,855</u>              | <u>18,597</u>                  | <u>24,848</u>          | <u>167,947</u>     |
| Interest expense                                    | <u>22,978</u>           | <u>10,728</u>                | <u>11,460</u>                | <u>24,788</u>              | <u>8,520</u>                   | <u>28,970</u>          | <u>107,444</u>     |
| Total expenses                                      | <u>149,459</u>          | <u>127,285</u>               | <u>88,737</u>                | <u>96,026</u>              | <u>91,134</u>                  | <u>124,873</u>         | <u>677,514</u>     |
| <b>CHANGE IN NET ASSETS</b>                         | <u>\$ 5,111</u>         | <u>\$ (80,904)</u>           | <u>\$ (30,563)</u>           | <u>\$ 15,189</u>           | <u>\$ 44,521</u>               | <u>\$ 34,167</u>       | <u>\$ (12,479)</u> |

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

|   | <b>LaFayette<br/>Apartments</b> | <b>Clinton Street<br/>Apartments</b> | <b>Killingsworth<br/>Group Homes</b> | <b>Andrea Place<br/>Apartments</b> | <b>Garlington Plaza<br/>Apartments</b> | <b>Faulkner<br/>Apartments</b> | <b>Total</b>       |
|---|---------------------------------|--------------------------------------|--------------------------------------|------------------------------------|--|--------------------------------|--------------------|
| <b>OPERATING REVENUES, GAINS, AND<br/>OTHER SUPPORT</b> |                                 |                                      |                                      |                                    |  |                                |                    |
| 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<br>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>     |
| <b>EXPENSES</b>   |                                 |                                      |                                      |                                    |  |                                |                    |
| 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              |
|   | <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                           | <u>39,475</u>                   | <u>38,682</u>                        | <u>31,494</u>                        | <u>18,711</u>                      | <u>11,917</u>                          | <u>29,528</u>                  | <u>169,807</u>     |
| Interest expense  | <u>23,882</u>                   | <u>9,964</u>                         | <u>11,799</u>                        | <u>25,631</u>                      | <u>9,014</u>                           | <u>29,895</u>                  | <u>110,185</u>     |
| 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>     |
| <b>CHANGE IN NET ASSETS</b>                             | <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.**  
**SCHEDULES OF CHANGES IN NET ASSETS – RESTATED**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|  | <u>LaFayette<br/>Apartments</u> | <u>Clinton<br/>Street<br/>Apartments</u> | <u>Killingsworth<br/>Group Homes</u> | <u>Andrea<br/>Place<br/>Apartments</u> | <u>Garlington<br/>Plaza<br/>Apartments</u> | <u>Faulkner<br/>Apartments</u> | <u>Total</u>      |
|--|---------------------------------|--|--------------------------------------|--|--|--------------------------------|-------------------|
| Unrestricted net assets, July 1, 2008            | \$ 110,058                      | \$ 231,541                               | \$ 224,207                           | \$ (241,537)                           | \$ 39,160                                  | \$ 110,095                     | \$ 473,524        |
| 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>   |
| Unrestricted net assets, June 30, 2009           | 89,154                          | 199,929                                  | 203,245                              | (243,123)                              | 70,922                                     | 110,426                        | 430,553           |
| Change in net assets                             | 5,111                           | (80,904)                                 | (30,563)                             | 15,189                                 | 44,521                                     | 34,167                         | (12,479)          |
| Distributions of surplus cash                    | <u>(76,745)</u>                 | <u>(31,163)</u>                          | <u>(39,977)</u>                      | <u>(15,946)</u>                        | <u>(31,397)</u>                            | <u>(33,554)</u>                | <u>(228,782)</u>  |
| Unrestricted net assets, June 30, 2010           | <u>\$ 17,520</u>                | <u>\$ 87,862</u>                         | <u>\$ 132,705</u>                    | <u>\$ (243,880)</u>                    | <u>\$ 84,046</u>                           | <u>\$ 111,039</u>              | <u>\$ 189,292</u> |
| Temporarily restricted net assets, July 1, 2008  | \$ -                            | \$ -                                     | \$ -                                 | \$ 15,517                              | \$ -                                       | \$ 81,136                      | \$ 96,653         |
| Assets released from restriction                 | <u>-</u>                        | <u>-</u>                                 | <u>-</u>                             | <u>(1,128)</u>                         | <u>-</u>                                   | <u>(4,752)</u>                 | <u>(5,880)</u>    |
| Temporarily restricted net assets, June 30, 2009 | -                               | -  | -                                    | 14,389                                 | -  | 76,384                         | 90,773            |
| Assets released from restriction                 | <u>-</u>                        | <u>-</u>                                 | <u>-</u>                             | <u>(1,128)</u>                         | <u>-</u>                                   | <u>(4,752)</u>                 | <u>(5,880)</u>    |
| Temporarily restricted net assets, June 30, 2010 | <u>\$ -</u>                     | <u>\$ -</u>                              | <u>\$ -</u>                          | <u>\$ 13,261</u>                       | <u>\$ -</u>                                | <u>\$ 71,632</u>               | <u>\$ 84,893</u>  |

**PROJECTS OWNED BY CASCADIA BEHAVIORAL HEALTHCARE, INC.**  
**SCHEDULE OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|  | <b>LaFayette<br/>Apartments</b> | <b>Clinton Street<br/>Apartments</b> | <b>Killingsworth<br/>Group Homes</b> | <b>Andrea Place<br/>Apartments</b> | <b>Garlington Plaza<br/>Apartments</b> | <b>Faulkner<br/>Apartments</b> | <b>Total</b>     |
|--|---------------------------------|--------------------------------------|--------------------------------------|------------------------------------|--|--------------------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                                 |                                      |                                      |                                    |  |                                |                  |
| Change in net assets                                       | \$ 5,111                        | \$ (80,904)                          | \$ (30,563)                          | \$ 15,189                          | \$ 44,521                              | \$ 34,167                      | \$ (12,479)      |
| Release of temporarily restricted net assets               | -                               | -                                    | -                                    | (1,128)                            | -                                      | (4,752)                        | (5,880)          |
| Cash flows from operating activities                       |                                 |                                      |                                      |                                    |  |                                |                  |
| Depreciation   | 40,470                          | 38,682                               | 26,495                               | 18,855                             | 18,597                                 | 24,848                         | 167,947          |
| Tenant accounts receivable, net of allowance               | 1,155                           | (696)                                | (805)                                | (2,142)                            | 4,130                                  | (4,347)                        | (2,705)          |
| Due from Cascadia  | (9,161)                         | -                                    | -                                    | (2,397)                            | (35,933)                               | (19,200)                       | (66,691)         |
| Prepaid expenses and deposits                              | 8,878                           | (374)                                | (358)                                | (477)                              | 3,957                                  | (901)                          | 10,725           |
| Accounts payable and accrued expenses                      | (2,658)                         | 6,991                                | (3,597)                              | (11,004)                           | (2)                                    | (1,667)                        | (11,937)         |
| Accrued interest   | -                               | 7,612                                | -                                    | -                                  | -                                      | -                              | 7,612            |
| Net cash from operating activities                         | <u>43,795</u>                   | <u>(28,689)</u>                      | <u>(8,828)</u>                       | <u>16,896</u>                      | <u>35,270</u>                          | <u>28,148</u>                  | <u>86,592</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                                 |                                      |                                      |                                    |  |                                |                  |
| Purchase of land, buildings and equipment                  | (14,936)                        | -                                    | -                                    | (5,420)                            | -                                      | (5,106)                        | (25,462)         |
| Security deposit   | (8,779)                         | (4,088)                              | -                                    | -                                  | (4,347)                                | -                              | (17,214)         |
| Escrow deposit   | 19                              | 1,697                                | (2)                                  | 208                                | (33)                                   | (153)                          | 1,736            |
| Replacement reserve  | 390                             | 14,262                               | (1,703)                              | 226                                | (4,867)                                | (1,345)                        | 6,963            |
| Net cash from investing activities                         | <u>(23,306)</u>                 | <u>11,871</u>                        | <u>(1,705)</u>                       | <u>(4,986)</u>                     | <u>(9,247)</u>                         | <u>(6,604)</u>                 | <u>(33,977)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                                 |                                      |                                      |                                    |  |                                |                  |
| Payment on equity gap financing                            | -                               | (1,041)                              | (1)                                  | (1,313)                            | -                                      | -                              | (2,355)          |
| Payments on long-term debt                                 | (20,484)                        | (7,153)                              | (4,758)                              | (16,565)                           | (24,437)                               | (13,376)                       | (86,773)         |
| Distributions of surplus cash                              | (76,745)                        | (31,163)                             | (39,977)                             | (15,946)                           | (31,397)                               | (33,554)                       | (228,782)        |
| Net cash from financing activities                         | <u>(97,229)</u>                 | <u>(39,357)</u>                      | <u>(44,736)</u>                      | <u>(33,824)</u>                    | <u>(55,834)</u>                        | <u>(46,930)</u>                | <u>(317,910)</u> |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>             | <u>(76,740)</u>                 | <u>(56,175)</u>                      | <u>(55,269)</u>                      | <u>(21,914)</u>                    | <u>(29,811)</u>                        | <u>(25,386)</u>                | <u>(265,295)</u> |
| <b>CASH AVAILABLE FOR OPERATIONS, at beginning of year</b> | <u>96,842</u>                   | <u>62,258</u>                        | <u>73,538</u>                        | <u>30,143</u>                      | <u>43,724</u>                          | <u>38,794</u>                  | <u>345,299</u>   |
| <b>CASH AVAILABLE FOR OPERATIONS, at end of year</b>       | <u>\$ 20,102</u>                | <u>\$ 6,083</u>                      | <u>\$ 18,269</u>                     | <u>\$ 8,229</u>                    | <u>\$ 13,913</u>                       | <u>\$ 13,408</u>               | <u>\$ 80,004</u> |

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

|  | <u>LaFayette<br/>Apartments</u> | <u>Clinton Street<br/>Apartments</u> | <u>Killingsworth<br/>Group Homes</u> | <u>Andrea Place<br/>Apartments</u> | <u>Garlington<br/>Plaza<br/>Apartments</u> | <u>Faulkner<br/>Apartments</u> | <u>Total</u>      |
|--|---------------------------------|--------------------------------------|--------------------------------------|------------------------------------|--|--------------------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                                 |                                      |                                      |                                    |  |                                |                   |
| 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 from operating activities                         | <u>6,549</u>                    | <u>5,960</u>                         | <u>10,956</u>                        | <u>20,335</u>                      | <u>44,596</u>                              | <u>13,766</u>                  | <u>102,162</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                                 |                                      |                                      |                                    |  |                                |                   |
| 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 from investing activities                         | <u>4,329</u>                    | <u>(5,059)</u>                       | <u>(3,374)</u>                       | <u>(4,394)</u>                     | <u>(5,164)</u>                             | <u>(5,869)</u>                 | <u>(19,531)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                                 |                                      |                                      |                                    |  |                                |                   |
| Payments on long-term debt                                 | (19,580)                        | (7,898)                              | (4,421)                              | (15,826)                           | (22,042)                                   | (12,551)                       | (82,318)          |
| Net cash from financing activities                         | <u>(19,580)</u>                 | <u>(7,898)</u>                       | <u>(4,421)</u>                       | <u>(15,826)</u>                    | <u>(22,042)</u>                            | <u>(12,551)</u>                | <u>(82,318)</u>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>             | (8,702)                         | (6,997)                              | 3,161                                | 115                                | 17,390                                     | (4,654)                        | 313               |
| <b>CASH AVAILABLE FOR OPERATIONS, at beginning of year</b> | <u>105,544</u>                  | <u>69,255</u>                        | <u>70,377</u>                        | <u>30,028</u>                      | <u>26,334</u>                              | <u>43,448</u>                  | <u>344,986</u>    |
| <b>CASH AVAILABLE FOR OPERATIONS, at end of year</b>       | <u>\$ 96,842</u>                | <u>\$ 62,258</u>                     | <u>\$ 73,538</u>                     | <u>\$ 30,143</u>                   | <u>\$ 43,724</u>                           | <u>\$ 38,794</u>               | <u>\$ 345,299</u> |