

Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

**Greater Columbia Behavioral Health
Regional Support Network
(Greater Columbia Behavioral Health)
Benton County**

Audit Period
July 1, 2012 through June 30, 2013

Report No. 1011427

Issue Date
March 17, 2014



**Washington State Auditor
Troy Kelley**

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

March 17, 2014

Board of Directors
Greater Columbia Behavioral Health
Kennewick, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Greater Columbia Behavioral Health's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Network's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

Table of Contents

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

Federal Summary	1
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	5
Independent Auditor’s Report on Financial Statements	8
Financial Section.....	11

Federal Summary

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

The results of our audit of the Greater Columbia Behavioral Health are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Network.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Network's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
93.958	Block Grants for Community Mental Health Services

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Network qualified as a low-risk auditee under OMB Circular A-133.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**Greater Columbia Behavioral Health
Benton County
July 1, 2012 through June 30, 2013**

Board of Directors
Greater Columbia Behavioral Health
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Greater Columbia Behavioral Health, Benton County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements, and have issued our report thereon dated March 7, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Network's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Network's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Network's financial statements are free from material misstatement, we performed tests of the Network's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Network's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Network's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

March 7, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

Board of Directors
Greater Columbia Behavioral Health
Kennewick, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Greater Columbia Behavioral Health, Benton County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The Network's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Network's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Network's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Network's compliance.

Opinion on Each Major Federal Program

In our opinion, the Network complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Network is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Network's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" in the middle.

TROY KELLEY
STATE AUDITOR

March 7, 2014

Independent Auditor's Report on Financial Statements

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

Board of Directors
Greater Columbia Behavioral Health
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Greater Columbia Behavioral Health, Benton County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Network's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Greater Columbia Behavioral Health, as of June 30, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Network's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014 on our consideration of the Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Network's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

March 7, 2014

Financial Section

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of Balance Sheet Governmental Funds to the Statement of Net Position – 2013

Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual – 2013

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Federal Awards – 2013

Management Discussion and Analysis

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

Greater Columbia Behavioral Health Administration's (GCBH) discussion and analysis offers readers a narrative overview and analysis of financial activities for the fiscal year ended June 30, 2013.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

Greater Columbia Behavioral Health (GCBH) was formed by interlocal agreement pursuant to RCW 71.24.300. Originally established by 11 Southeastern Washington Counties, GCBH operates as a quazi-governmental agency. GCBH is licensed in the State of Washington to operate as one of only 11 Regional Support Networks (RSN).

As an RSN, GCBH is responsible for managing in excess of \$50 million per year in mental health contracts across its designated region.

During Fiscal Year 2013 (FY13), GCBH went from serving 11 counties at the beginning of the 12 month cycle, to only serving 10 counties at its close. Skamania County left GCBH to merge with the newly created, and much closer, Southwest Washington Behavioral Health Regional Support Network (SWRSN).

Skamania County only accounted for 1% of the total GCBH Medicaid population, so the fiscal impact was minimal.

Medicaid, the largest source of revenue for GCBH, rose slightly from \$41.6 million in FY12 to just over \$41.8 million during FY13. State-Only revenue, the RSNs second largest revenue source remained the same at \$10.5 million for both FY12 and FY13.

The biggest drop in GCBH revenue was Eastern State Hospital (ESH) Reconciliation funding. During FY12, GCBH earned over \$611,000 in under-usage charges at Eastern State Hospital. That amount dropped during FY13 to just over \$350,000. These lost revenues can be attributed to a change in the way DSHS calculates bed usage charges at Eastern State Hospital.

Interest Income on investments continues to remain low. Total interest earned during FY13 was only \$7,889, up slightly from the \$6,108 that was earned during FY12.

Fiscal Year 2013 brought to a close another 24 month contract cycle with the State of Washington. Reserve Balances are tested for compliance on the final day of each 24 month cycle. Unexpended reserves which exceed contract limits on this day may be subject to re-imburement.

Medicaid payments to the provider network increased 15% during FY13 going from \$33 million during FY12 to just over \$38 million during the current year. Non-Medicaid payments to the provider network also increased slightly from \$6.9 million in FY12 to just under \$7.9 million during FY13. A 14% increase from the prior year. The majority of these additional payments came as a reduction to GCBH reserve balances.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to GCBH's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

There are two government-wide financial statements designed to provide readers with a broad overview of GCBH's finances in a manner similar to a private-sector business. New accounting rules require governmental agencies to distinguish functions that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). All of GCBH's activities are considered governmental activities and are dedicated to providing mental health services within our catchment area. The Statement of Net Position presents information on all of GCBH's assets and liabilities, with the difference between the two reported as net position. This statement serves as a useful indicator of whether the financial position of Greater Columbia is improving or deteriorating. However, this is just one indicator of the financial health of the organization. Another indicator is the Statement of Activities which illustrates how GCBH's net position changed during 2013. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires revenues be reported when earned and expenses are reported when goods or services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2013 and earned but unused vacation leave, will be included in the statement of activities as revenue and expense, though the cash associated with these items will not be received or distributed in 2013.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated from specific activities or objectives. GCBH, like other state and local governments, is required to use fund accounting. Because GCBH is an organization dedicated to a single purpose, it only uses the Governmental Fund type. Governmental Funds are used to account for most, if not all, of a government's tax-supported activities.

Governmental Funds

GCBH has only one fund under this category, the General Fund. The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances present GCBH's financial data for its general fund.

Governmental funds are used to account for essentially the same function reported as governmental activities in the Government-wide Financial Statements. However, unlike Government-wide Financial Statements' use of accrual accounting, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available. Because the focus of Governmental Fund Financial Statements is narrower than that of Government-wide Financial Statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliation to the governmental activities column in the government-wide statements in order to facilitate this comparison.

GCBH maintains budgetary controls over its operating funds. As stated above, GCBH has only one fund, the General Fund. Because of this, there is substantial similarity between the Governmental Funds Financial Statements and the Government-wide Financial Statements. However, the above discussion of accrual vs. non-accrual reporting explains the minor differences that may be found.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Though net position may serve over time as a useful indicator of a typical government's financial position, GCBH, on the other hand has contract restrictions limiting the amount of reserves it may carry.

Total Net Position of GCBH dropped 36% during the year. The Total Net Position was reduced from \$7.6 million at the end of FY12, to just over \$4.8 million at the close of Fiscal Year 2013. As mentioned earlier, RSN reserve balances are measured for compliance on the final day of the 24 month fiscal cycle. To reach these year-end reserve limits, additional outpatient funding was released to the provider network during fiscal year 2013.

These additional payments were funded largely through the reduction of unrestricted assets. Unrestricted Assets were reduced from \$2.8 million at the close of FY12, to just over \$100,000 at the end of FY13.

The Statement of Net Position also includes the value of Capital Assets owned by GCBH. These assets reflect the historical cost of all GCBH land, buildings, and equipment (net of accumulated depreciation).

For fiscal year 2013, the only capital expenditures were made on behalf of the Information Systems (IS) department. The main GCBH server was replaced and a new server room cooling unit was installed at a total cost of \$18,212.

Condensed GCBH Statement of Net Position

	<u>FY13</u>	<u>FY12</u>
Current Assets	\$4,615,750	\$7,339,873
Capital Assets	<u>567,930</u>	<u>619,075</u>
Total Assets	\$5,183,680	\$7,958,948
Total Liabilities	\$ 342,785	\$ 297,831
Net Assets:		
Invested in Capital Assets	567,930	619,075
Committed Assets	19,020	19,020
Restricted Assets	4,151,054	4,215,875
Unrestricted Assets	<u>102,891</u>	<u>2,807,147</u>
Total Net Position	\$4,840,895	\$7,661,117

Statement of Activities

The Statement of Activities reports the revenue earned and expenditures made by GCBH during FY12 and FY13. Total FY13 revenue of \$54,674,156 was ½% less than total revenue earned during FY12. (\$54,747,991)

Total expenses on the other hand increased from \$51.6 million during FY12, to just under \$57.5 million during the FY13.

Condensed GCBH Statement of Activities

	<u>FY13</u>	<u>FY12</u>
Revenue	\$54,674,156	\$54,747,991
(Less) Expenditures	<u>57,494,378</u>	<u>51,622,883</u>
Change in Net Position	(2,820,222)	3,125,108
Ending Net Position	\$ 4,840,895	\$ 7,661,117

FINANCIAL ANALYSIS OF THE GCBH FUNDS

As noted earlier, GCBH uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. GCBH only has one fund, the general fund, and it is a governmental type fund.

Governmental Funds Balance Sheet Analysis

The Balance Sheet is an analysis of GCBH's General Fund assets and liabilities as of June 30, 2013.

GCBH General Fund

The focus of the GCBH general fund is to provide information on near-term inflows, outflows, and balance of spendable resources. As of June 30, 2013, the GCBH general fund reported a total fund balance of \$4,338,853 compared to the prior year balance of \$7,111,528.

Of the fiscal year 2013 total fund balance, \$168,779 was considered unassigned and available for spending within the general fund in accordance with board designation. The remaining \$4,170,074 is reported as restricted.

GENERAL FUND BUDGETARY HIGHLIGHTS

GCBH is on a bi-annual budget cycle (every two years). Budgeting revenue for an RSN does have its share of challenges. The majority of RSN revenue is generated via a Medicaid Prepaid Inpatient Health Plan (PIHP) contract. These monthly PIHP payments are paid on a per-member per-month (PMPM) basis. Ironically, in difficult economic times, RSN revenue will increase as more people seek out public assistance. The opposite can also occur the economy improves. Less and less people tend to require (or qualify) for Medicaid assistance as their own personal situation gets better.

Strong evidence that the economy is improving has occurred during fiscal year 2013. Since 2008, GCBH has consistently seen growth in the number Medicaid eligible consumers being served. During FY13, Medicaid population numbers flat-lined causing PIHP revenue to do the same.

The final revenue and expenditure budget for FY12-FY13 equaled \$111,138,000. This amount actually reflected a 1.4% decrease from the FY10-FY11 operating budget which was approved at \$112,702,524.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

GCBH owns and maintains a small number of capital assets. These assets include land, a building, and three (3) vehicles. In addition, GCBH also maintains a network of computers and servers used to store and submit confidential medical information. The GCBH board of directors has determined only assets purchased with a value greater than \$5,000 per item will be considered a capital purchase for reporting purposes.

Long-Term Debt

GCBH has no long-term debt.

ECONOMIC FACTORS

GCBH serves at the pleasure of the state and federal governments who provide funding through the Washington State Department of Social and Health Services (DSHS). Through a variety of contracts with DSHS, GCBH administers the publically funded mental health service system within a ten (10) county catchment area.

Implementation of the affordable care will likely provide GCBH with a variety of new opportunities for growth during the next biennium. The state is forecasting major increases to the number of people eligible for Medicaid.

Unfortunately, this same healthcare legislation has brought into question the legality of the states entire RSN system. CMS may require contracts currently only offered to Regional Support Networks be made available to private, for profit insurance companies.

Negotiations between the State of Washington and CMS began recently to determine the fate of the state RSN system of care. Results from those discussions will have a far reaching impact on future of GCBH and the network of service providers it manages.

Requests for Information

This financial report is designed to provide a general overview of GCBH's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Troy D. Wilson, Chief Financial Officer
Greater Columbia Behavioral Health
101 North Edison Street
Kennewick WA 99336
(509)735-8681

GREATER COLUMBIA BEHAVIORAL HEALTH
STATEMENT OF NET POSITION
As of June 30, 2013

	Governmental Activities
	General Fund
<u>ASSETS</u>	
Current Assets	
Cash and Equivalents	\$ 4,554,513
Due From Other Government Units	61,237
TOTAL CURRENT ASSETS	4,615,750
Non-Current Assets	
Capital Assets (Net of Depreciation)	
Land	73,350
Building and Equipment	494,580
TOTAL LONG TERM ASSETS	567,930
TOTAL ASSETS	\$ 5,183,680
<u>LIABILITIES AND FUND BALANCE</u>	
Current Liabilities	
Payables	\$ 157,741
Due to Other Government Units	119,156
Compensated Absences	65,888
TOTAL CURRENT LIABILITIES	342,785
TOTAL LIABILITIES	342,785
Net Position	
Invested in Capital Assets (Net of Depreciation)	567,930
Committed Assets	19,020
Restricted Net Assets	4,151,054
Unrestricted Net Assets	102,891
TOTAL NET POSITION	\$ 4,840,895

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**GREATER COLUMBIA BEHAVIORAL HEALTH
BALANCE SHEET-GOVERNMENTAL FUNDS
As of June 30, 2013**

	General Fund	Total
<u>ASSETS</u>		
Current Assets		
Cash and Equivalents	\$ 4,554,513	\$ 4,554,513
Due From Other Government Units	61,237	61,237
TOTAL CURRENT ASSETS	\$ 4,615,750	\$ 4,615,750
<u>LIABILITIES AND FUND BALANCE</u>		
Current Liabilities		
Accounts/Vouchers Payable	\$ 157,741	157,741
Due To Other Government Units	119,156	119,156
TOTAL CURRENT LIABILITIES	276,897	276,897
Fund Balance		
Committed	19,020	19,020
Restricted	4,151,054	4,151,054
Unassigned	168,779	168,779
TOTAL FUND BALANCE	4,338,853	4,338,853
 TOTAL LIABILITIES AND FUND BALANCE	\$ 4,615,750	\$ 4,615,750

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**Reconciliation of Balance Sheet Governmental Funds to Statement of Net
Position**

**Greater Columbia Behavioral Health
Benton County
July 1, 2012 through June 30, 2013**

Total fund balance as shown on the Governmental Fund Balance Sheet is **\$4,338,853** compared with **\$4,840,895** as listed as the total Net Position on the Statement of Net Position. This is a difference of **\$502,042**.

The reconciling items are as follows: Capital Assets (net of depreciation) in the amount of **\$567,930** are shown on the Statement of Net Position and not on the Governmental Fund Balance Sheet. Compensated Absences in the amount of **\$65,888** were reported as a liability on the Statement of Net Position, but not on the Governmental Fund Balance Sheet. **(\$567,930-\$65,888=\$502,042)**.

**GREATER COLUMBIA BEHAVIORAL HEALTH
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Program Revenue			Net (expense) Revenue & changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activity	Business Type Activities	Total
Governmental Activities:						
Mental & Physical Health	\$ 57,494,378	\$ 41,829,713	\$ 12,788,626	\$ (2,876,039)	\$	\$ (2,876,039)
Total Governmental Activities	57,494,378	41,829,713	12,788,626	(2,876,039)	-	(2,876,039)
Business-Type Activities:						
Total Business-Type Activities						
Total Primary Government	\$ 57,494,378	\$ 41,829,713	\$ 12,788,626	(2,876,039)	-	(2,876,039)
General Revenues						
Investment Earnings				7,889		7,889
Miscellaneous				47,928		47,928
Transfers						
Total General Revenues & Transfers				55,817	-	55,817
Change in Net Position				(2,820,222)	-	(2,820,222)
Net Position-Beginning				7,661,117		7,661,117
Net Position-Ending				\$ 4,840,895	\$	\$ 4,840,895

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

GREATER COLUMBIA BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES
and CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

<u>REVENUES</u>	General Fund 2013 Actual
<u>Intergovernmental Revenue</u>	
330 Intergovernmental Revenue	\$ 12,788,626
<u>Charges for Goods and Services</u>	
340 Charges for Goods and Services	41,829,713
<u>Miscellaneous Revenues</u>	
360 Miscellaneous	55,817
TOTAL REVENUE	\$ 54,674,156
<u>EXPENDITURES</u>	
564 Mental and Physical health	57,428,619
594 Capital Outlays	18,212
TOTAL EXPENDITURES	\$ 57,446,831
Excess of Revenues Over (Under) Expenditures	(2,772,675)
Net Change in Fund Balance	(2,772,675)
Fund Balance - Beginning 7/1/2012	7,111,528
Fund Balance - Ending 6/30/2013	\$ 4,338,853

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to Statement of Activities**

**Greater Columbia Behavioral Health
Benton County
July 1, 2012 through June 30, 2013**

The net change in fund balance as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance is \$(2,772,675). The Change in Net Position on the Statement of Activities equals \$(2,820,222). This represents a difference of **\$47,547**.

Revenue is the same under both reporting methods. However, expenditures are different because the Statement of Activities capitalizes assets and reports depreciation. The Statement of Revenues, Expenditures and Changes in Fund Balance expense assets during the year purchased and do not depreciate assets. In addition, the Statement of Activities expenses the change in liability for compensated absences from the prior year. The difference between these two statements equals **\$47,547**.

The total represents the amount of depreciation reported for fiscal year 2013, minus capital outlays during the fiscal year, minus the net change in compensated absences (\$69,357 - \$18,212 - \$3,598 = **\$47,547**).

GREATER COLUMBIA BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES and CHANGES IN FUND BALANCE
BUDGET to ACTUAL
For the Fiscal Year Ended June 30, 2013

	Original FY12-13 Budget	Final FY12-13 Budget	Fiscal Year 2012 Actual	Fiscal Year 2013 Actual	Combined FY12-FY13 Actual	Variance Favorable (Unfavorable)
REVENUES						
Intergovernmental Revenue	\$ 26,284,000	\$ 26,404,000	\$ 13,093,666	\$ 12,788,626	\$ 25,882,292	\$ 521,708
Charges for Goods and Services	76,809,000	84,509,000	41,570,264	41,829,713	83,399,977	1,109,023
Miscellaneous Revenues	225,000	225,000	84,061	55,817	139,878	85,122
TOTAL REVENUE	103,318,000	111,138,000	54,747,991	54,674,156	109,422,147	1,715,853
EXPENDITURES						
564 Mental and Physical Health	103,318,000	111,109,771	51,569,526	57,428,619	108,998,145	2,111,626
594 Capital Outlays	-	28,229	10,017	18,212	28,229	-
TOTAL EXPENDITURES	\$ 103,318,000	\$ 111,138,000	51,579,543	57,446,831	109,026,374	\$ 2,111,626
Excess of Revenues Over (Under) Expenditures			3,168,448	(2,772,675)		
Net Change in Fund Balance			3,168,448	(2,772,675)		
Fund Balance Beginning 7/1/2011 & 7/1/2012			3,943,080	7,111,528		
Fund Balance Ending 6/30/2012 & 6/30/2013			\$ 7,111,528	\$ 4,338,853		

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

Greater Columbia Behavioral Health Benton County July 1, 2012 through June 30, 2013

Note 1 - Summary of Significant Accounting Policies

The financial statements of Greater Columbia Behavioral Health have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Greater Columbia Behavioral Health (GCBH) was formed in 1989 under an inter-local agreement between Asotin, Benton, Columbia, Franklin, Garfield, Kittitas, Klickitat, Skamania, Walla Walla, Whitman, and Yakima counties. Skamania County withdrew its membership in GCBH during fiscal year 2013. The RSN is organized under RCW 71.24, Community Mental Health Services Act, and RCW 39.34, Inter-local Cooperation Act, to manage the delivery of comprehensive mental health services throughout the GCBH ten (10) county catchment areas. GCBH funding is provided through contractual agreement with the Washington State Department of Social and Health Services (DSHS).

GCBH has no component units.

B. Fund Financial Statements

Separate fund financial statements are provided for governmental funds. Information for the governmental fund is presented using a major fund presentation. This format presents individual columns for funds with significant activity. The remaining funds are presented in aggregate in a single column.

GOVERNMENTAL FUND:

Governmental fund financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separate from business-type activities, which rely to a significant extent on fees and charges for support.

The GCBH Regional Support Network (RSN) has only one fund, the General Fund. All activities are reported in that fund.

The Statement of Activities demonstrates the degree to which the expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Fund financial statements are used to report additional and more detailed information about the primary government. Separate financial statements would be provided for government wide funds, proprietary funds and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual enterprise funds would be reported as separate columns in the fund financial statements.

C. Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All governmental funds are presented using the flow of “current financial resources” measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, GCBH considers revenues to be available if they are collected within thirty (30) days of the end of the fiscal period. In most cases, revenues susceptible to accrual are earned interest, certain charges for services, and intergovernmental revenues, such as grants, where program expenditures are the prime factor for determining reimbursement. For fiscal year 2013, GCBH timed the maturity of its investments to occur within days of the year end thus no investment interest was accrued. Other revenues such as sales based taxes, licenses, fines and fees are not considered susceptible for accrual since they are not generally measurable until received. Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

See Note 1 E 5 Accumulated Unpaid Vacation, Compensatory Time and Sick Leave

GCBH reports the following major governmental fund: The General Fund

The General Fund is GCBH's primary and only operating fund. It is used to account for all activities of the government unit.

D. Budget and Budgetary Accounting

1. Scope of Budget

A biennial appropriated budget is adopted by GCBH on the modified accrual basis of accounting. There are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for revenue and expenditure accounts; the financial statements only include budgetary comparisons over a complete biennium.

The biennial appropriated budget is adopted at the fund level where expenditures may not exceed appropriations for the fund as a whole. Subsidiary revenue and expenditure accounts are used to compare the budgeted amounts with actual revenues and expenditures. Appropriations lapse at the end of a biennium.

2. Procedures for Adopting the Original Budget

GCBH budget procedure is mandated by RCW 71.24 and WAC 275-57. A biennial budget is adopted by GCBH Board of Directors by resolution.

3. The GCBH Chief Financial Officer is authorized to transfer budgeted amounts between line items; however any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other conditions of employment, or capital expenditures must be approved by the Board of Directors.

E. Assets, Liabilities, Fund Balance, Net Assets or Equities

1. Cash and Cash Equivalents

GCBH is required to maintain all cash accounts with the County Treasurer. These amounts are either held on behalf of GCBH as cash for operations or invested in short-term investments. On June 30, 2013, GCBH was holding \$4,554,513 in surplus cash and cash equivalents. Of this amount, \$454,513 was held for operations and the remaining \$4,100,000 was held as short term investments. As required by state law, all investments of the county's funds are obligations of the U.S. Government, or deposits with Washington State banks and savings and loan institutions.

2. Temporary Investments – (See Item 1. Cash and Cash Equivalents)

3. Due From and To Other Governmental Units and Counties - (See Note 4B)

These accounts include amounts due to or from counties and other governmental units for grants, entitlements, and advances.

4. Capital Assets and Depreciation – (See Note 6)

5. Accumulated Unpaid Vacation, Compensatory Time and Sick Leave – (See Note 11)

Accumulated Unpaid Vacation, Compensatory time and sick leave are not recorded on the balance sheet. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement, or death. Compensatory time is earned by full-time non-exempt employees for hours worked in excess of 40 hour per week and may be accumulated up to 40 hours. Compensatory time is payable upon request. Sick leave may accumulate up to 1040 hours. Sick leave is paid out at fifty percent (50%) on unused sick leave balances upon voluntary termination or retirement for those employees employed prior to February 1, 1993. Employees hired on/or after February 1, 1993, who regularly retire under the GCBH retirement program, shall receive payment for twenty-five percent (25%) of their unused sick leave. Such payment shall be limited to employees with five (5) or more years of service and shall not exceed two thousand dollars (\$2,000.00). As of June 30, 2013, GCBH was liable for \$57,110 in vacation pay, \$332 in compensatory time, and \$8,446 in sick pay.

6. Fund Reserves and Designations (See Note-12)

Fund equity is recognized as fund balance in governmental fund types. Certain fund equity may be reserved for a specific future use, or to denote unavailability for current operations. Designations of fund balance represent tentative management plans that are subject to change.

7. Inventories and Repayments

GCBH does not carry inventories. All supplies are considered expensed when purchased. Prepayments made for services that will benefit future periods are recorded as prepaid items in government-wide statements.

8. Long-Term Debt

GCBH had no outstanding long-term debt as of June 30, 2013.

F. Revenues, Expenditures and Expenses

Under the modified-accrual basis of accounting:

Grants are considered measurable and available to the extent that expenditures have been incurred. Other intergovernmental revenues are considered measurable and available when earned.

All other revenues are either not measurable or considered not available until collected.

Expenditures are generally recognized when incurred.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The Governmental Funds' Balance Sheet includes reconciliation between fund balances — total governmental funds and net position — governmental activities reported in the Government-wide Statement of Net Position.

Total fund balance as shown on the Governmental Fund Balance Sheet is \$4,338,853 compared to \$4,840,895 reported as Total Net Position on the Statement of Net Position. This is a difference of \$502,042. The reconciling items are as follows: Capital Assets (net of depreciation) in the amount of \$567,930 and Compensated Absences in the amount of \$65,888 are shown on the Statement of Net Position and not on the Governmental Fund Balance Sheet. ($\$567,930 - \$65,888 = \$502,042$).

B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between net changes in fund balance – total governmental funds and changes in net position of governmental activities as reported in the Government-wide Statement of Activities.

The net change in fund balances as shown on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance is \$(2,772,675). The change in net position on the Statement of Activities equal \$(2,820,222). This represents a difference of **\$47,547**.

Revenue is the same under both reporting methods. However, expenditures are different because the Statement of Activities capitalizes assets and reports depreciation. The Statement of Revenues, Expenditures and Changes in Fund Balance expense assets in the year purchased and do not depreciate assets. In addition, the Statement of Activities expenses the change in liability for compensated absences from the prior year. The difference between these two statements equals \$47,547. The total represents the amount of depreciation reported for fiscal year 2013, less capital outlays during the fiscal year, less the net change in compensated absences (**\$69,357- \$18,212 - \$3,598= \$47,547**).

Note 3 – Stewardship, Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of GCBH. (See Note 1 D)

Note 4 - Deposits and Investments

A. Deposits and Investments

GCBH had no long-term investments as of June 30, 2013.

B. Receivables

Accrued interest receivable consists of amounts earned on investments at the end of the year. Efforts were made to schedule the maturity of all GCBH investments on or within 5 days of fiscal year end. As a result, no interest income has been accrued for fiscal year 2013. Total interest income for fiscal year 2013 was reported at **\$7,889**.

Due from Other Governmental Units in the amount of **\$61,237** represent grant funds in the amount of \$54,138 that were owed but not received by year-end from the Washington State Department of Social and Health Services. And \$7,099 in ITA Judicial Billings due from Other Washington State RSN's.

Note 5 - Intergovernmental Grants and Entitlements

The accompanying Schedule of Financial Assistance provides a listing of all federal programs in which GCBH participates and summarizes GCBH grant transactions for the period ending June 30, 2013.

Prepaid Inpatient Health Plan (PIHP) funding refers to intergovernmental revenue which has been received based on a capitation rate schedule. PIHP (Medicaid) and State-Only funding is not included on the Schedules of Expenditures of Federal Awards.

Note 6 - Capital Assets and Depreciation

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Capital assets are defined as assets with an initial, individualized cost of \$5,000 or more. Maintenance, repairs, and minor renewals are accounted for as expenditures when incurred.

General capital assets are long-lived assets of GCBH. When purchased, leased, or constructed, such assets are recorded as expenditures in the governmental fund and capitalized in the capital asset account group. Depreciation of capital assets is not recorded in governmental funds. Straight-line depreciation is calculated for the purpose of determining the book value of the capital assets at year-end.

As of June 30, 2013, GCBH had no capital leases.

The following is a summary of changes in the value of GCBH capital assets for the period ended June 30, 2013.

For The Period Ended June 30, 2013

Category:	Year	Basis 2013	Additions 2013	Deletions 2013	Historical Cost	Accum Depreciation Pre 2013	Depreciation Expense 2013	Remaining Basis YE FY13	Remaining Basis (Sum) YE FY13
<u>Non-Depreciable:</u>									
Land	2006	73,350	-	-	73,350	-	-	\$ 73,350	\$ 73,350
<u>Depreciable:</u>									
Building	2002	308,053	-	-	308,053	156,595	15,403	136,055	
Building Remodel (1)	2002	175,683	-	-	175,683	89,304	8,784	77,595	
Building Remodel (2)	2007	290,212	-	-	290,212	78,601	14,511	197,100	
Building Remodel (settlement) Building	2009	25,000	-	-	25,000	4,166	1,250	19,584	
Office Equipment	Pre 2010	6,846	-	-	6,846	6,503	343	-	430,334
Computer Equipment	Pre 2013	128,303	-	-	128,303	56,184	24,029	48,090	
Computer Equipment	FY13	-	18,212	-	18,212	-	2,056	16,156	
Equipment									64,246
Vehicles	Pre 2010	50,421	-	-	50,421	47,440	2,981	-	-
Vehicles									
		<u>1,057,868</u>	<u>18,212</u>	<u>-</u>	<u>1,076,080</u>	<u>438,793</u>	<u>69,357</u>	<u>567,930</u>	<u>567,930</u>

Note 7 - Pension Plans

Substantially all GCBH full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the address below or by accessing the DRS website:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380
www.drs.wa.gov

The following disclosures are made pursuant to GASB Statement Number 27, *Accounting for Pensions by State and Local Government Employers and No 50 Pension Disclosures, an Amendment of GASB Statements Number 25 and Number 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of

benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The

monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both GCBH and the employees made the required contributions. GCBH required contributions for the years ended June 30 were:

	PERS Plan I	PERS Plan II	PERS Plan III
2013	\$7,350	\$70,738	\$6,142
2012	7,243	66,065	11,529
2011	5,436	36,811	9,028
2010	2,718	39,062	6,590
2009	0	\$65,767	\$6,194

Note 8 - Deferred Compensation Plan

GCBH offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the National Association of Counties Deferred Compensation Program. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Compensation deferred under the plan and all income attributable to the plan is solely the property of GCBH. GCBH rights to this property are subject only to the claims of GCBH creditors until paid to the employee or other beneficiary and are not restricted to the benefit provisions under the plan.

At June 30, 2013 the portion of plan assets applicable to GCBH was \$197,706.50.

Note 9 - Risk Management

Greater Columbia Behavioral Health is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss;

\$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for

any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Note 10 - Contingencies and Litigation

GCBH participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under terms of the grants. GCBH management believes that such disallowances, if any, would be immaterial.

Note 11 – Changes in Compensated Absences

During the year ended June 30, 2013, the following changes occurred in Compensated Absences:

	Beginning Balance 07/01/12	Additions	Reductions	Ending Balance 06/30/13	Due Within One Year
Governmental Activities: Compensated Absences	\$69,486	\$104,477	\$108,075	\$65,888	\$65,888

Note 12 – Fund Equity

Fund equity, the difference between fund assets and liabilities, is classified as “Fund Balance.” Fund Balance is classified as either “restricted” or “unassigned”. Restricted Fund Balance indicates an amount that is either inappropriate for expenditure without board approval or legally segregated for a specific future use within GCBH contracts. Unassigned Fund Balance indicates that portion of the total fund balance which remains available for future appropriation.

Reservations of Fund Balance

GCBH maintains a reserve policy describing each reserve account by name. (FM812-Reserves). The policy provides the basis for each reserve account and the limitations placed on their use. In addition to meeting cash flow requirements, these reserves provide financial protection against excessive costs associated with providing mental health services under the GCBH/DSHS contracts. *State Mental Health Contracts (SMHC 12-13 and PIHP 12-13)*

SMHC 12-13 states GCBH must “ensure the existence of an inpatient reserve at 3.7% of the contractor’s annual payment”. (\$10.5 mil. X .037=\$390K)

PIHP 12-13 states GCBH must *"maintain a risk and inpatient reserve of the contractor's annual Medicaid premium payment at 7.8% for FY13"*. (\$41.8 mil. X .078=\$3.3 mil.)

Each Reserve Fund at GCBH was established through formal action by the GCBH Board of Directors.

During the normal course of business, resources listed as "unassigned" must be expended prior to accessing either the Committed or Restricted Reserve Balances.

GCBH committed and restricted reserves also must retain their identity specific to their source. (PIHP vs Non-Medicaid) PIHP Reserves can only be accessed to cover costs associated with Medicaid types of claims.

A. Committed Fund Balance

The General Fund had a total of \$19,020 in Committed Fund Balance as of June 30, 2013.

Non-Medicaid Capital Account \$19,020

Committed Fund Balance as of July 1, 2012	\$19,020
Increases in Restricted Reserves	
Decreases in Restricted Reserves	
Committed Fund Balance as of June 30, 2013	\$19,020

B. Restricted Fund Balance

The General Fund had a total of \$4,151,054 in Restricted Fund Balance as of June 30, 2013.

The following reserve accounts have been combined and accounted for as Restricted:

Non-Medicaid Operating Account	\$ 285,875
Non-Medicaid Inpatient Account	435,537
Medicaid Inpatient/Risk Account	<u>3,429,642</u>
 Restricted Fund Balance (6/30/13)	 \$ 4,151,054

Restricted Fund Balance as of July 1, 2012	\$4,215,875
Increases in Restricted Reserves	
Decreases in Restricted Reserves	64,821
Restricted Fund Balance as of June 30, 2013	\$4,151,054

C. Unassigned Fund Balance

The General Fund had a total of \$168,779 of Unassigned Fund Balance as of June 30, 2013.

Unassigned Fund Balance as of July 1, 2012	\$2,876,333
Increases in Unassigned Fund Balance	
Decreases in Unassigned Fund Balance	2,707,554
Unassigned Fund Balance as of June 30, 2013	\$ 168,779

Note -13 Possible Departure from GAAP (Generally Accepted Accounting Principles)

PIHP and State-Only contracts have 45 day financial reporting requirements. These bi-annual revenue and expense reports may have an impact on the ability of GCBH to include late invoices.

GCBH Funding policy also contains requirements around the number of monthly inpatient hospital billings GCBH will pay during a given year.

In very rare instances, either of these items could impact the ability of GCBH to capture and account for all outstanding payables.

It is unlikely these missed payables, in the event they did occur, would even be material in nature.

GREATER COLUMBIA BEHAVIORAL HEALTH
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2013

1	2	3	4
Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Other ID Number	Current Year Expenditures
U.S. Department of Health and Human Services			
Passed through WA State Dept. of Social and Health Services			
Mental Health Block Grant	93.958	1169-35588	549,145
	Total # 93.958		549,145
Project For Assistance In Transition For Homeless			
	93.150	1069-11397	2,068
	93.150	1169-34804	30,356
	93.150	1169-34804	24,577
	93.150	1269-59273	758
	93.150	1269-59274	12,553
	Total # 93.150		70,312
Roads to Community Living			
	93.791	1269-53728	4,146
	Total # 93.791		4,146
TOTAL EXPENDITURES FEDERAL AWARDS			\$ 623,603

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO SCHEDULE OF FEDERAL AWARDS

Note 1 – Basis of Accounting

Expenditures of program specific grants performed by sub-recipients of Greater Columbia Behavioral Health are generally recognized to the extent Greater Columbia Behavioral Health has made reimbursement to the sub-recipient.

In prior reporting periods, Mental Health Federal Block Grant **(CFDA 93.958)** had recognized expenditures in the period in which costs were incurred by the sub-recipient. In October 2005, the Washington State Department of Health and Human Services directed Greater Columbia Behavioral Health to only recognize expenditures to the extent Greater Columbia Behavioral Health had made actual reimbursement.

Note 2- Federal Award Expenditures

The amount shown as current year expenditures represents only the federal grant portion of the costs. Entire program cost, including Greater Columbia Behavioral Health's portion or sub-contractor portion, may be more than shown.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
Chief of Staff
Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mike Murphy
Mary Leider
(360) 902-0370
(866) 902-3900

Website
Subscription Service

www.sao.wa.gov
portal.sao.wa.gov/saoportal/Login.aspx