



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

**North Sound Regional Support
Network**

**(North Sound Mental Health
Administration)**

Skagit County

For the period January 1, 2013 through December 31, 2013

Published September 25, 2014

Report No. 1012682





Washington State Auditor
Troy Kelley

September 25, 2014

Board of Directors
North Sound Mental Health Administration
Mount Vernon, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the North Sound Mental Health Administration'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

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Skagit County
January 1, 2013 through December 31, 2013**

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Federal Summary

North Sound Mental Health Administration Skagit County January 1, 2013 through December 31, 2013

The results of our audit of the North Sound Mental Health Administration 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 of the governmental activities and each major fund.

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***

**North Sound Mental Health Administration
Skagit County
January 1, 2013 through December 31, 2013**

Board of Directors
North Sound Mental Health Administration
Mount Vernon, 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 North Sound Mental Health Administration, Skagit County, Washington, as of and for the year ended December 31, 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 September 15, 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

September 15, 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

**North Sound Mental Health Administration
Skagit County
January 1, 2013 through December 31, 2013**

Board of Directors
North Sound Mental Health Administration
Mount Vernon, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the North Sound Mental Health Administration, Skagit 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 December 31, 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 December 31, 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 15, 2014

Independent Auditor's Report on Financial Statements

North Sound Mental Health Administration Skagit County January 1, 2013 through December 31, 2013

Board of Directors
North Sound Mental Health Administration
Mount Vernon, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Sound Mental Health Administration, Skagit County, Washington, as of and for the year ended December 31, 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 North Sound Mental Health Administration, as of December 31, 2013, and the respective changes in financial position thereof, and the 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 15 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 September 15, 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

September 15, 2014

Financial Section

**North Sound Mental Health Administration
Skagit County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

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

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

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

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

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

North Sound Regional Support Network

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Sound Mental Health Administration's (NSMHA) discussion and analysis offers readers of our financial statements a narrative overview and analysis of our financial activities for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements (which immediately follow this discussion). North Sound Regional Support Network has a marketing name or doing business as (dba) North Sound Mental Health Administration (NSMHA). This name helps inform the public what we do. We are a joint venture between five counties and we have eight Native American tribes in our region.

FINANCIAL HIGHLIGHTS

Total expenditures are \$10,903,538 higher in 2013 compared to 2012 on the statement of revenues and expenditures. Total revenues are \$5,696,415 higher than the prior year on the same statements. The Board of Directors has again assigned fund balances aimed at projects to expand, improve and meet the changing requirements of the mental health care system in our region. This includes increasing the capacity of the North Sound RSN to meet the expected increase in demand for services resulting from the expansion of Medicaid eligibility to adults as well as the requirements of the TR lawsuit settlement to increase mental health services to children. We completed the contracting process for the first round of projects in 2012. We are planning on doing a second round of additional improvement projects in 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to NSMHA'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 NSMHA's finances in a manner similar to a private-sector business. The 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 NSMHA's activities are considered governmental activities and are dedicated to providing mental health services to the community. The statement of net position presents information on all of NSMHA's assets and liabilities, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the North Sound is improving or deteriorating. However, this is just one indicator of the financial health of the organization. Other indicators include the statement of activities information showing how NSMHA'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 that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as unpaid vendor invoices for items received in 2013, and earned but unused vacation leave a portion of sick leave, will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2014.

Fund Financial Statements

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

Governmental Funds

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

Governmental funds are used to account for essentially the same functions 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

Governmental Funds (continued)

government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both 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.

NSMHA maintains budgetary controls over its operating funds. As stated above, NSHMA 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.

Proprietary Funds

NSMHA has no proprietary funds.

Fiduciary Funds

NSMHA has no fiduciary funds.

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 this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. Refer to Table 1 when reading the following analysis of Net Position. NSMHA's Net Position total was \$22,356,575 at December 31, 2012 compared to \$23,821,207 at December 31, 2013. Please note the unrestricted net position have gone from a \$5,568,972 to \$3,537,991.

Table 1: Summary of Net Position 2013 versus 2012		
As of December 31, 2013		
	2012	2013
Current Assets	\$32,570,750	\$35,769,700
Capital Assets	69,715	91,440
Total Assets	\$32,640,465	\$35,861,140
Current Liabilities	\$3,849,988	\$6,752,392
Non-Current Liabilities	148,281	160,972
Total Liabilities	\$3,998,269	\$6,913,364
Deferred Inflow of Resources	\$6,285,621	\$5,126,569
Total Deferred Inflow of Resources	\$6,285,621	\$5,126,569
Net Position:		
Invested in Capital Assets	\$69,715	\$91,440
Reserved	16,717,888	20,191,776
Unrestricted	5,568,972	3,537,991
Total Net Position	\$22,356,575	\$23,821,207

NSMHA's total current assets are \$35,769,700 at December 31 2013. The majority of NSMHA assets were accounted for in cash, cash equivalents, and investments. At December 31, 2013, the NSMHA had outstanding liabilities of just under \$7 million, a majority of which is due within a year. Included in liabilities in the table is \$4,684,216 in accounts payable, \$1,986,968 due to governmental units. In 2013 the deferred revenue decreased by \$1,159,052.

The investments are used to maintain risk and hospital inpatient reserves, which is appropriate given its function as a managed health care entity. This money can be used to pay ongoing obligations to contracted providers in the event that governmental payments are not sufficient. The balance of unrestricted net position at December 31, 2013 is \$3,537,991.

Statement of Activities

Refer to Table 2 when reading the following analysis of the Statement of Activities. NSMHA's total net position increased by \$1,464,632 in 2013 compared to an increase of \$6,688,351 in 2012. Governmental revenue increased in 2013 by \$5,661,635 and expenses increased by \$10,920,134 compared to 2012.

Table 2: Summary of Statement of Activities		
For the Year Ended December 31, 2013		
	2012	2013
Governmental Activities		
Governmental Revenues	\$67,923,215	\$73,584,850
Governmental Expenditures	61,289,568	72,209,702
Net Governmental Activities	\$6,633,647	\$1,375,148
General Revenues		
Investment Earnings	\$37,284	\$69,289
Miscellaneous Revenue	17,420	20,195
Total General Revenue	\$54,704	\$89,484
Change in Net Position	\$6,688,351	\$1,464,632
Net Position - Beginning	\$15,668,224	\$22,356,575
Net Position - Ending	\$22,356,575	\$23,821,207

FINANCIAL ANALYSIS OF THE NSMHA'S FUNDS

As noted earlier, NSMHA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. NSMHA 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 NSMHA's General Fund assets and liabilities as of December 31, 2013.

NSMHA General Fund

The focus of NSMHA's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of December 31, 2013, NSMHA's general fund reported a fund balance of \$23,890,739 compared to the prior year of \$22,435,141. There is an unassigned fund balance of \$3,698,963 in 2013 compared to the unassigned fund balance of \$5,717,253 in 2012. A Medicaid risk and inpatient reserve fund balance of \$4,873,208 is not available for spending because it is a contractually required reserve. The state funds inpatient reserves is \$997,055 and is also not available for spending because it is a contractually required reserve.

Our reserve requirements are as follows: For the Medicaid fund a 10.2% risk and inpatient reserve and up to 5% for operating reserves. On the state fund side we are required to have a 5.4% inpatient reserve and can have up to a 5% operating reserves.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund is in good condition at the end of 2013. The balance sheet showed an unassigned fund balance of \$3,698,963 at the end of 2013 compared to a \$5,717,253 unassigned fund balance at the end of 2012. This change is mainly due to the board of directors setting aside more funds to expand, improve and meet the changing requirements of the public mental health care system in our region. This includes increasing the capacity of the North Sound RSN to meet the expected increase in demand for services resulting from the expansion of Medicaid eligibility to adults as well as the requirements of the TR lawsuit settlement to increase mental health services to children. Our revenues exceeded our original budget amount by over \$6 million and our expenditures exceeded our original budget by \$4.7 million during 2013. Refer to the statement of revenue, expenses and changes in fund balance budget to actual for more information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

NSMHA has ten capital assets. Nine computer servers and a lease hold improvement. This is a total net book value of \$91,440 at December 31, 2013.

* Reference the accompanying notes to the financial statements for more information.

Long-Term Debt

NSMHA has no long-term debt. However we do have long term leases. Please refer to the notes to the financial statements.

ECONOMIC FACTORS

NSMHA serves at the pleasure of the state, federal and local governments who provide funding through the Washington State Department of Social and Health Services. Our role is to serve clients in our five county region. The current funding level provided by the Federal and State agencies is not always stable. This, along with changes in the way funding can be used and a significant increase in reporting and operating requirements, have dramatically changed the way we conduct business at the North Sound during the last few years. The continual cuts in state funding and increases in Medicaid funding are reshaping our agency and mission. The Federal Government is requiring many changes in how medical services are provided, coordinated and reported. The impact of the federal sequester on our Federal Mental Health Block Grant allocation will further restrict our ability in the kinds of services we can support

The state is in the process of redesigning the children's mental health system. This will have an effect on how we deliver children's services. We are going to have the DSHS Strategy Two Dual Eligible pilot (both Medicaid and Medicare eligible) in our region. This means we will have increased coordination requirements and decreased funding. The Medicaid expansion starts January 1, 2014 and has increased our eligible client base. It will be a test of the region's abilities to be able to serve the Medicaid expansion clients in a timely manner.

The state legislator passed Second Substitute Senate Bill 6312 on April 4, 2014. This bill starts the integrations process of mental health and chemical dependency state wide. This means there will be some big changes for our organization in the future.

Requests for Information

This financial report is designed to provide a general overview of NSMHA'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:

Bill Whitlock, Fiscal Officer
North Sound Mental Health Administration
117 North 1st Street, Suite 8
Mount Vernon, WA 98273
360-416-7013
Visit our website at <http://www.nsmha.org/>.

NORTH SOUND REGIONAL SUPPORT NETWORK

**Statement of Net Position
December 31, 2013**

	Governmental Activities General Fund
<u>ASSETS</u>	
Current Assets	
Cash	\$ 1,233,634
Cash Equivalents	14,422,664
Investments	19,002,315
Deposits	4,821
Accrued Interest	7,357
Due From Other Gov't Units	723,898
Advances to Counties	375,011
TOTAL CURRENT ASSETS	\$ 35,769,700
Non-current Assets	
Capital Assets being Depreciated	210,453
Less: Accumulated Depreciation	119,013
Net Assets Being Depreciated	91,440
TOTAL LONG TERM ASSETS	\$ 91,440
TOTAL ASSETS	\$ 35,861,140
<u>LIABILITIES AND FUND BALANCE</u>	
Current Liabilities	
Accounts/Vouchers Payable	\$ 4,684,216
Due To Other Gov't Units	1,986,968
Advances - Working Capital	81,208
TOTAL CURRENT LIABILITIES	\$ 6,752,392
Non-current Liabilities	
Compensated Absences	160,972
Total Non-current Liabilities	160,972
TOTAL LIABILITIES	\$ 6,913,364
<u>Deferred inflow of Resources</u>	
Revenue Received But Not Earned	5,126,569
TOTAL DEFERED INFLOW OF RESOURCES	\$ 5,126,569
Net Position	
Net Investment in Capital Assets	\$ 91,440
Restricted for Medicaid Risk & Inpatient	4,873,208
Restricted for State Funds Inpatient	997,055
Restricted for Projects	14,321,513
Unrestricted	3,537,991
TOTAL Net Position	\$ 23,821,207

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NORTH SOUND REGIONAL SUPPORT NETWORK

Statement Of Activities
For The Year Ended December 31, 2013

	Program Revenue			Net (expense) Revenue & Changes in Net Assets		
Expenses	Charges for service	Operating Grants and Contributions	Grants & Fees	Governmental Activity	Business Activities	Total
<u>Governmental Activities:</u>						
Mental & Physical Health	\$72,209,702	71,790,087	\$ 1,794,763	1,375,148	-	1,375,148
Total Governmental Activities	\$72,209,702	71,790,087	\$ 1,794,763	\$ 1,375,148	-	\$ 1,375,148
<u>Business-Type Activities:</u>						
Total Business-Type Activities:	-	-	-	-	-	-
Total Primary Government	\$72,209,702	71,790,087	\$ 1,794,763	\$ 1,375,148	-	\$ 1,375,148
<u>General Revenues</u>						
Investment Earnings				\$ 69,289		\$ 69,289
Miscellaneous				20,195		20,195
Transfers						-
Total General Revenue & Transfers				\$ 89,484	-	\$ 89,484
Change in Net Position				\$ 1,464,632	-	\$ 1,464,632
Net Position-Beginning						22,356,575
Adjustment to Beginning						
Net Position-Ending						\$ 23,821,207

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NORTH SOUND REGIONAL SUPPORT NETWORK

Balance Sheet Governmental Funds

December 31, 2013

	General Fund	Total
<u>ASSETS</u>		
Assets		
Cash	\$ 1,233,634	1,233,634
Cash Equivalents	14,422,664	14,422,664
Investments	19,002,315	19,002,315
Deposits	4,821	4,821
Accrued Interest	7,357	7,357
Due From Other Gov't Units	723,898	723,898
Advances to Counties	375,011	375,011
TOTAL CURRENT ASSETS	\$ 35,769,700	\$ 35,769,700
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities		
Accounts/Vouchers Payable	\$ 4,684,216	\$ 4,684,216
Due To Other Gov't Units	1,986,968	1,986,968
Advances - Working Capital	81,208	81,208
TOTAL CURRENT LIABILITIES	\$ 6,752,392	\$ 6,752,392
 <u>Deferred Inflow of Resources</u>		
Intergovernmental Revenue Received But Not Earned	5,126,569	5,126,569
	\$ 5,126,569	\$ 5,126,569
 Fund Balance		
Restricted Fund Balance - Risk & Inpatient Medicaid	\$ 4,873,208	\$ 4,873,208
Restricted Fund Balance - Inpatient State	997,055	997,055
Restricted Fund Balance - Contracts Medicaid	1,826,568	1,826,568
Restricted Fund Balance - Contracts State	1,494,945	1,494,945
Committed Fund Balance - Medicaid	8,000,000	8,000,000
Committed Fund Balance - State	3,000,000	3,000,000
Unassigned Fund Balance	3,698,963	3,698,963
TOTAL FUND BALANCE	\$ 23,890,739	\$ 23,890,739
 Total Liabilities, Deferred Inflows of Resources and Fund Bal	 \$ 35,769,700	 \$ 35,769,700

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

North Sound Regional Support Network
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
for the Year Ended December 31, 2013

Total fund balance as shown on the Governmental Statement Balance Sheet is \$23,890,739 compared to \$23,821,207 shown on the Statement of Net Position. This is a difference of \$69,532.

The reconciling item is compensated absences in the amount of \$160,972. This is not shown on the Balance Sheet of the Governmental Funds but is part of the Statement of Net Position.

The capital assets being depreciated net of accumulated depreciation in the amount of \$91,440 are shown on the Statement of Net Position and not on the Balance Sheet.

The difference between the statements is $(\$69,532) = \$91,440 - \$160,972$.

NORTH SOUND REGIONAL SUPPORT NETWORK

Statement Of Revenue, Expenditures and Changes In Fund Balance Governmental Funds Year Ended December 31, 2013

<u>REVENUES</u>	<u>General Fund 2013</u>
<u>Intergovernmental Revenue</u>	
Indirect Federal Grants	\$ 1,200,834
State Grants	593,929
Intergovernmental Fee for Service	70,464,992
Intergovernmental Taxes	1,325,095
<u>Miscellaneous Revenues</u>	
Investment Interest	69,289
Miscellaneous Revenues	20,195
TOTAL REVENUE	<u>\$ 73,674,334</u>
<u>EXPENDITURES</u>	
Current:	
Mental & Physical Health	\$ 72,158,660
Capital Outlay	60,076
TOTAL EXPENDITURES	<u>\$ 72,218,736</u>
Excess of Revenues Over (Under) Expenditures	\$ 1,455,598
Net Change in Fund Balance	\$ 1,455,598
Fund Balance - Beginning 1/1/13	22,435,141
Fund Balance - Ending 12/31/13	<u><u>\$ 23,890,739</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

North Sound Regional Support Network
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities for the Year Ended December 31, 2013

The net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance is \$1,455,598. The change in net position on the Statement of Activities equals \$1,464,632. This represents a difference of (\$9,034).

The revenues are the same under both reporting methods. However the expenditures are different because the statement of activities capitalizes assets and uses depreciation. The governmental funds expense assets in the year purchased and do not depreciate assets. The depreciation expense for the year ended 2013 is \$38,352. Capitalized Assets purchased during 2013 are \$60,076. The other difference is in reporting the change in compensated absences from \$148,281 at December 31, 2012 to \$160,972 at December 31, 2013. The difference is (\$12,691). Compensated absences represent the vacation and some sick leave pay off amount at year end. This represents depreciation expense during 2013 plus the change in compensated absences from 2012 to 2013. The total difference is $(\$9,034) = \$38,351 - 60,076 + 12,691$.

NORTH SOUND REGIONAL SUPPORT NETWORK

**Statement Of Revenues, Expenditures
and Changes In Fund Balance - Budget and Actual
General Fund**

Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<u>REVENUES</u>				
<u>Intergovernmental Revenue</u>				
Indirect Federal Grants	1,239,570	1,239,570	1,200,834	(38,736)
State Grants	359,055	359,055	593,929	234,874
Intergovernmental Fee for Service	65,842,879	69,442,879	70,464,992	1,022,113
Intergovernmental taxes		1,600,000	1,325,095	(274,905)
<u>Miscellaneous Revenues</u>				
Investment Interest	50,000	50,000	69,289	19,289
Miscellaneous Revenues	20,000	20,000	20,195	195
TOTAL REVENUE	\$ 67,511,504	\$ 72,711,504	\$ 73,674,334	\$ 962,830
<u>EXPENDITURES</u>				
Mental & Physical Health	\$ 67,511,504	\$ 72,649,504	\$ 72,158,660	\$ 490,844
Capital Outlays		62,000	60,076	1,924
TOTAL EXPENDITURES	\$ 67,511,504	\$ 72,711,504	\$ 72,218,736	\$ 492,768
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 1,455,598	\$ 1,455,598
Net Change in Fund Balance	\$ -	\$ -	\$ 1,455,598	\$ 1,455,598
Fund Balance - Beginning 1/1/13			\$ 22,435,141	\$ 22,435,141
Fund Balance Ending - 12/31/13	\$ -	\$ -	\$ 23,890,739	\$ 23,890,739

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Sound Regional Support Network (dba North Sound Mental Health Administration) have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The chart of accounts conforms to the Budgeting, Accounting, and Reporting Systems (BARS) prescribed by the office of the State Auditor, to promote uniformity among the cities and counties of Washington resulting in better comparability. The significant accounting policies are described below.

A. Reporting Entity

State Senate Bill 5400, regionalizing mental health services in Washington State was passed and signed into law in May 1989. This bill allowed geographical areas to jointly provide mental health services to the combined populations. In October 1989, an Interlocal Agreement was approved by Island County, San Juan County, Skagit County, Snohomish County, and Whatcom County creating the North Sound Regional Support Network (NSRSN). In March 1990, the State Legislature provided funding for the NSRSN to begin operations on January 1, 1991. The NSRSN first had financial activity in October 1990.

North Sound Regional Support Network is a governmental agency providing a variety of mental health services to a five county region. During February 2003 the trade name "North Sound Mental Health Administration" was registered with the State of Washington Department of Licensing.

The North Sound RSN does not have any component units.

B. Government-Wide and Fund Financial Statements

Government wide 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. 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 North Sound Regional Support Network only has 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.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the 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 soon enough thereafter to pay liabilities of the current period. For this purpose, the North Sound considers revenues to be available if they are collected within days of the end of the current fiscal period. The North Sound considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

See Note 1 D 7 Compensated Absences.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The North Sound reports the following major governmental fund: **The General Fund is the North Sound's primary and only operating fund. It is used to account for all activities of the government unit.**

D. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Equivalents

At December 31, 2013, \$2,000 is on deposit at Skagit State Bank for our petty cash and advanced travel. The employee flexible spending account had a balance of \$ 6,241 at December 31, 2013. Cash on hand at the County Treasurer's office is \$ 1,225,393. In addition to cash at the bank and Treasurers office we have \$14,422,664 classified on the balance sheet as cash equivalents at December 31, 2013. These are invested in the state treasurer's investment pool. Cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash and mature within three months. See note 4 A.

2. Temporary Investments – See Note 4 A.

3. Receivables and Payables

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects. Interest Receivable consists of amounts earned on investments at the end of the year and fair value changes in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, are included. A change in the way we do business required by DSHS/MHD in September 2006 has changed the recognition of hospital inpatient payables. We recognize hospital inpatient bills in the month when they are billed by the Medical Assistance Administration. The hospitals have up to twelve months to bill and the state may take years to process and bill the RSN.

4. Inventories and Prepayments

The North Sound 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.

5. Capital Assets

Capital assets include information technology equipment and lease hold improvements. The North Sound defines capital assets as assets with an initial, individual cost of more than \$7,500 and an estimated useful life in excess of one year.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the government fund financial statements. Capital assets are valued at cost where historical records are available and at an estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value on the date received. Improvements to capital assets that materially add to the value or extend the life of the asset are capitalized. Other repairs and normal maintenance are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Estimated useful lives are as follows:

Information Technology Equipment – 3 to 20 years

Lease hold improvements – over the life of the lease (For more information see Note 4.)

6. Deferred Inflows of Resources

The deferred inflow of resources for the North Sound is to account for amounts for which revenue recognition criteria have not been met. The funds are associated with obligations that are allocated to

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

specific contracts but have not been spent or earned.

Note 1 D. Assets, Liabilities, Fund Balance, Net Position (continued)

7. Compensated Absences

It is the North Sound's policy to permit employees to accumulate earned but unused vacation leave benefits. All vacation pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The non-current portion for governmental funds is not reported in the governmental fund statements and represents a reconciling item between the fund and government-wide presentations. Employees receive vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement or death. Sick leave may accumulate up to a maximum of 120 days. An employee leaving the North Sound Regional Support Network is entitled to be paid for unused vacation and 25% of sick leave after completion of five years of service. Employee benefit payout for 2013 was \$160,972 including estimated benefits.

8. Long-Term Debt - See Note 5

9. Fund Equity

Fund equity is recognized as fund balance in governmental fund types. Fund equity is classified by the nature of the restriction on future use. The following are classifications of fund balance; nonspendable, restricted, committed, assigned, unassigned. The North Sound has restricted, and unassigned fund balances.

Restricted Fund Balance - That portion of net resources that contains limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.

Assigned fund balance - Funds set aside by the governing body for a specific purpose. The board has the authority to restrict and unrestricted the funds.

Unassigned Fund Balance - The residual net resources in excess of Nonspendable, Restricted, Committed and Assigned. See Note 10 for more information.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance as shown on the Governmental Statement Balance Sheet is \$23,890,739 compared to \$23,821,207 shown on the Statement of Net Position. This is a difference of \$69,532. The reconciling item is compensated absences in the amount of \$160,972. This is not shown on the Balance Sheet of the Governmental Funds but is part of the Statement of Net Position. The capital assets being depreciated net of accumulated depreciation in the amount of \$91,440 are shown on the Statement of Net Position and not on the Balance Sheet. The difference between the statements is $(\$69,532) = \$91,440 - \$160,972$.

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

The net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance is \$1,455,598. The change in net position on the Statement of Activities equals \$1,464,632. This represents a difference of (\$9,034).

The revenues are the same under both reporting methods. However the expenditures are different because the statement of activities capitalizes assets and uses depreciation. The governmental funds expense assets in the year

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

purchased and do not depreciate assets. The depreciation expense for the year ended 2013 is \$38,352. Capitalized Assets purchased during 2013 are \$60,076. The other difference is in reporting the change in compensated absences from \$148,281 at December 31, 2012 to \$160,972 at December 31, 2013. The difference is (\$12,691). Compensated absences represent the vacation and some sick leave pay off amount at year end. This represents depreciation expense during 2013 plus the change in compensated absences from 2012 to 2013. The total difference is $(\$9,034) = \$38,351 - 60,076 + 12,691$.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Scope of Budget

The annual budget for North Sound is adopted in accordance with the provisions of the Revised Code of Washington (RCW), as interpreted by the Budgeting, Accounting, and Reporting System (BARS) of the State of Washington, and on a basis consistent with generally accepted accounting principles. The annual appropriated budget is adopted at the fund level. All appropriations lapse after the close of each fiscal year. All expenditures incurred prior to year-end, but not paid until this thirty-day period are considered expenditures against the budget for the prior year and are reported as accounts payable.

2. Procedure for Adopting the Original Budget

On or before December 1 of each year, a budget is prepared showing for each object, actual expenditures for the prior year, current year estimated, and requested appropriations for the next fiscal year. A proposed budget is presented to the Board of Directors and public. After public meetings and Advisory Board approval a recommended budget is brought to the Board of Directors for approval. The Board of Directors approves the recommended budget on or before December 31st of each year and it becomes the adopted budget.

3. Amending the Budget

The Executive Director is authorized to approve budget transfers between appropriation units (sub-object of expenditure). However the following circumstances require Board of Director approval:

Revisions that affect the appropriation units of salaries and wages or capital outlay.

Revisions that create new salaried positions.

Revisions that establish new programs.

Revisions that delete ongoing programs.

Revisions that alter the total expenditures of the budget.

The budget amounts shown in the financial statements are the final authorized amounts revised during 2013. The North Sound did not budget for all of the capital expenditures incurred before filing the annual financial report. We did not exceed the total annual appropriations.

B. Deficit fund balance.

The North Sound does not have any negative fund balances on the balance sheet. Please read the management discussion and analysis for more information on the North Sounds economic condition.

NOTE 4 – DETAILED NOTES ON THE GENERAL FUND

A. Deposits and Investments.

The North Sound Regional Support Network utilizes the services of the Skagit County Treasurer. All deposits are covered by Federal deposit insurance corporation (FDIC) and also covered by the Washington State Public Deposit Protection Commission (PDPC). The PDPC protection is in the nature of collateral and not insurance, pursuant to Governmental Accounting Standards Board of Statement No. 3.

NORTH SOUND REGIONAL SUPPORT NETWORK
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013

As of December 31, 2013, the North Sound Regional Support Network cash equivalents and investments are:

<u>Investment</u>	Fair Value of investments	Total
State investment pool	\$ <u>13,919,990</u>	\$ <u>13,919,990</u>
Money Market	\$ <u>502,674</u>	\$ <u>502,674</u>
Federal Home Loan Agency	\$ <u>4,000,000</u>	\$ <u>4,000,000</u>
General Obligation Bond	\$ <u>4,500,175</u>	\$ <u>4,500,175</u>
Federal Farm Credit	\$ <u>2,001,315</u>	\$ <u>2,001,315</u>
Fannie Mae	\$ <u>4,499,825</u>	\$ <u>4,499,825</u>
Freddie Mac	\$ <u>4,001,000</u>	\$ <u>4,001,000</u>
Total	\$ <u>33,424,979</u>	\$ <u>33,424,979</u>

NOTE 4 – A. Deposits and Investments (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction North Sound Regional Support Network would not be able to recover the value of the investment or collateral securities. North Sound Regional Support Network has no custodial credit risk as of December 31, 2013.

The North Sound Regional Support Network does not hold investments for other local governments, individuals or private organizations. Statutes authorize the County, acting as an agent of the North Sound Regional Support Network, to invest in obligations of the U.S. Treasury and its instrumentalities, bankers acceptances issued in the secondary market, primary certificates of deposit issued by Washington State qualified public depositories as defined under Chapter 39.58 of the Revised Code of Washington, and the State Treasurer’s investment pool.

The deposit shown on the balance in the amount of \$4,821 is a damage deposit required for the office-building lease.

B. Receivables

Accrued interest receivable consists of amounts earned on investments at the end of the year. At the end of 2013 the interest earned is \$7,357.

Due from other governmental units in the amount of \$723,898 represent grant funds that were owed but not received by year-end. The amounts owed were all from Washington State Department of Social and Health Services.

Advances to counties represent cash given to counties in the North Sound region to cover cash flow issues. Historically they were based on two months’ worth of bills. The amounts have not changed in many years. The advances on the balance sheet equal \$375,011.

C. Fixed Assets and Depreciation

1. General Policies

Major expenditures for fixed assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred. All fixed assets are valued at historical cost (or estimated cost, where historical cost is not known). The NSRSN has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an

equity interest in these assets, however, the NSRSN has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account group.

2. Capital Assets

Our capitalization policy is to capitalize assets that have a useful life of more than two years and cost more than \$7,500. See note 1 D 5.

NORTH SOUND REGIONAL SUPPORT NETWORK
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013

NOTE 4 – C. 2 Capital Assets (continued)

A summary of changes in general fixed assets follows:

	Balance 1/1/13	Additions	Deletions	Balance 12/31/13
Capital Assets being depreciated:				
Machinery & Equipment	\$ 80,772	\$ 60,076	\$ 23,709	\$ 117,139
Leasehold Improvements	\$ 93,314	\$	\$	\$ 93,314
Total Assets being depreciated	\$ 174,086	\$ 60,076	\$ 23,709	\$ 210,453
Less accumulated depreciation	\$ (104,371)	\$ (38,351)	\$ (23,709)	\$ (119,013)
Total capital asset being depreciated, net	\$ 69,715	\$ 21,725	\$ 0	\$ 91,440

NOTE 5 – LONG TERM DEBT

The only long term debt North Sound has is compensated absences (see note 1 D-7). We do not have any outstanding loans or bond debt at this time.

Type of Debt	Beginning Balance 1/1/13	New Issue	Retirements	Ending Balance 12/31/13
Compensated Absences	\$ 148,281	\$ 27,120	\$ 14,429	\$ 160,972
Total	\$ 148,281	\$ 27,120	\$ 14,429	\$ 160,972

NOTE 6 – LEASES

North Sound Regional Support Network is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the account groups.

The 2013 rent expense for all operating leases was \$158,306.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013. All leases are more than one year. We currently have a building lease, postage machine lease and two copy machine leases.

Year ending December 31	Amounts
2014	\$ 146,247
2015	\$ 24,038
2016	\$ 11,251
Total	\$ 181,536

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 - PENSION PLANS

Substantially all North Sound Regional Support Network 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 by writing to:

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

Or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB statements No. 27, *Accounting for pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 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 (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; Approximately 49 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 exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

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 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 2013, the rate was five and one-half

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit upon separation from PERS-covered employment.

NOTE 7 - PENSION PLANS (continued)

PERS Plan 1 members are vested after the completion of 5 years of eligible service.

Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to age 65 may receive actuarially reduced benefits.

The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit cannot exceed 60 percent of AFC.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 account.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the members' 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.

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 5 years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of 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.

Plan 2 members 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, if hired before May 1, 2013:

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

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

PERS plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made of a survivor option.

NOTE 7 - PENSION PLANS (continued)

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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of the 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, 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 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible to retire with full benefits 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 and 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, and they were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before are 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before the age 65.

PERS plan 3 defined benefit retirement benefits are actuarially reduced to reflect choice, if made, of a survivor option. PERS Plan 2 and 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 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 cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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 in the proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

NORTH SOUND REGIONAL SUPPORT NETWORK
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013

There are 1176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

NOTE 7 - PENSION PLANS (continued)

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and 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 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution 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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under 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, 2013 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21 %**	9.21%****
Employee	6.0%***	4.92%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.18%.
- ** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
- *** Plan 3 defined portion only.
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both NSRSN and the employees made the required contributions. The NSRSN's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 0	\$ 98,968	\$ 17,668
2012	\$ 0	\$ 84,706	\$ 13,446
2011	\$ 0	\$ 72,244	\$ 10,018

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Deferred Compensation

The North Sound Regional Support Network offers its employees two deferred compensation programs created in accordance with Internal Revenue Code Section 457. The plan administrators are Mass Mutual Retirement Services and the Department of Retirement Services.

NOTE 8 - RISK MANAGEMENT

North Sound Regional Support Network 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.

NOTE 8 - RISK MANAGEMENT (continued).

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.

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

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NOTE 8 - RISK MANAGEMENT (continued).

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 9 - CONTINGENCIES AND LITIGATION

North Sound Regional Support Network has recorded in its financial statements all material liabilities. In the opinion of management, the North Sound Regional Support Network’s insurance policy is adequate to pay all known or pending claims. Grant funds 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 the terms of the grants. North Sound Regional Support Network management believes that such disallowances, if any, will be immaterial.

NOTE 10 - FUND EQUITIES

GASB 54 requires breaking down fund balance reporting by classifying amounts by the types of restrictions placed upon them. The fund balances are classified by the following restrictions; non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. The North Sound has restricted, assigned and unassigned fund balance. Restricted fund balances have external strings attached to the funds such as contracts, agreements our legislation. These external strings have specific purposes attached to the funds limiting their use. Assigned fund balances are amounts that are constrained by government’s intent to be used for a specific purpose. Unassigned fund balances are balances that have not been restricted, committed or assigned to a specific purpose.

NORTH SOUND REGIONAL SUPPORT NETWORK
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013

A. Restricted Fund Balance

The General Fund has a total of \$9,191,776 in restricted fund balance at December 31, 2013. This is the amount set aside to satisfy the contractual reserve portion of the NSRSN contract with the State Department of Social and Health Services.

Medicaid Risk and Inpatient Restricted of Fund Balance at January 1, 2013	\$4,576,037
Increases in Restricted fund balance	297,171
Decreases in Restricted fund balance	
Medicaid Risk and Inpatient Restricted of Fund Balance at December 31, 2013	\$4,873,208

State Funds Inpatient Restricted of Fund Balance at January 1, 2013	\$999,928
Increases in Restricted fund balance	
Decreases in Restricted fund balance	2,873
State Funds Inpatient Restricted of Fund Balance at December 31, 2013	\$997,055

Medicaid Contracts Fund Balance at January 1, 2013	\$0
Increases in Restricted fund balance	2,816,329
Decreases in Restricted fund balance	989,731
Medicaid Risk and Inpatient Restricted of Fund Balance at December 31, 2013	\$1,826,568

State Funds Contracts Fund Balance at January 1, 2013	\$0
Increases in Restricted fund balance	2,886,389
Decreases in Restricted fund balance	1,391,444
State Funds Inpatient Restricted of Fund Balance at December 31, 2013	\$1,494,945

NOTE 10 - FUND EQUITIES (continued)

B. Committed Fund Balance

The General Fund has a total of \$11,000,000 in restricted fund balance at December 31, 2013. This is the amount set aside by the NSRSN Board of Directors for implementation of the children's mental health care redesign, expansion of our crisis services and health care reform projects.

Medicaid Risk and Inpatient Restricted of Fund Balance at January 1, 2013	\$0
Increases in Restricted fund balance	8,000,000
Decreases in Restricted fund balance	
Medicaid Risk and Inpatient Restricted of Fund Balance at December 31, 2013	\$8,000,000

State Funds Inpatient Restricted of Fund Balance at January 1, 2013	\$0
Increases in Restricted fund balance	3,000,000
Decreases in Restricted fund balance	
State Funds Inpatient Restricted of Fund Balance at December 31, 2013	\$3,000,000

NORTH SOUND REGIONAL SUPPORT NETWORK
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013

C. Assigned Fund Balance

The General Fund has unassigned fund balance of \$0 at December 31, 2013.

Assigned Fund Balance at January 1, 2013	\$11,141,923
Increases in Assigned Fund Balance	
Decreases in Assigned Fund Balance	11,141,923
Assigned Fund Balance at December 31, 2013	\$ 0

D. Unassigned Fund Balance

The General Fund has unassigned fund balance of \$3,698,963 at December 31, 2013.

Unassigned Fund Balance at January 1, 2013	\$5,717,253
Increases in Unassigned Fund Balance	0
Decreases in Unassigned Fund Balance	2,018,290
Unassigned Fund Balance at December 31, 2013	\$3,698,963

NOTE 11 – SUBSEQUENT EVENTS

The state legislator passed Second Substitute Senate Bill 6312 on April 4, 2014. This bill starts the integrations process of mental health and chemical dependency state wide. This means there will be some changes for our organization in the future.

NORTH SOUND REGIONAL SUPPORT NETWORK
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended December 31, 2013

1 Federal Agency Name/Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 Expenditures		6 Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1169-34822	38,674		38,674
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1169-34824	10,767		10,767
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1269-59270	129,994		129,994
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1269-59271	42,100		42,100
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1369-83125	3,874		3,874
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1369-83126	4,543		4,543
	Total CFDA Number 93.150			229,952		229,952
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Block Grant for Community Mental Health Services	93.958	1169-35591	530,519		530,519
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Block Grant for Community Mental Health Services	93.958	1369-76925	440,362		440,362
	Total CFDA Number 93.958			970,882		970,882
	TOTAL FEDERAL AWARDS EXPENDED			1,200,834	-	1,200,834

NORTH SOUND REGIONAL SUPPORT NETWORK
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2013

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. North Sound Regional Support Network complies with generally accepted accounting practices, and uses modified accrual accounting for governmental funds and accrual accounting for proprietary funds.

Note 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the North Sound's portion, are more than shown.

Note 3 – AMOUNTS AWARDED TO SUBRECIPIENT

All fund reported on schedule 16 are considered to be passed through to subrecipients.

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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