



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Southwest Washington Behavioral Health Regional Support Network

Clark County

For the period January 1, 2014 through December 31, 2014

Published August 3, 2015

Report No. 1014708





Washington State Auditor's Office

August 3, 2015

Board of Appointed Representatives
Southwest Washington Behavioral Health Regional Support Network
Vancouver, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Southwest Washington Behavioral Health Regional Support Network'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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Southwest Washington Behavioral Health Regional Support Network Clark County

January 1, 2014 through December 31, 2014

The results of our audit of the Southwest Washington Behavioral Health Regional Support Network 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 did not qualify as a low-risk auditee under OMB Circular A-133.

STATUS OF PRIOR AUDIT FINDINGS

Southwest Washington Behavioral Health Regional Support Network Clark County

January 1, 2014 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Southwest Washington Behavioral Health Regional Support Network. The State Auditor's Office has reviewed the status as presented by the Network.

Audit Period: October 1, 2012 – December 31, 2013	Report Ref. No.: 1012078	Finding Ref. No.: 1
Finding Caption: The Network should improve internal controls over accounting and financial statement preparation to ensure accurate reporting.		
Background: Network management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. We found that the Network did not adequately research how to appropriately record nonroutine transactions and found the Network's review process was not sufficient to ensure financial statements are accurate.		
Status of Corrective Action: (check one) <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: 1. Establish an audit start date that will provide sufficient time for internal annual financial report review. <i>The audit was scheduled in June to provide ample time for internal and external review.</i> 2. Contract with an independent certified public accounting firm to complete a disclosure checklist on the Network's annual financial report prior to submitting to the State Auditor's Office. <i>RSN contracted with TDJ CPA Incorporated to complete and it was completed prior to submitting the Network's annual financial report to the State Auditor's Office.</i>		

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*

Southwest Washington Behavioral Health Regional Support Network Clark County January 1, 2014 through December 31, 2014

Board of Appointed Representatives
Southwest Washington Behavioral Health Regional Support Network
Longview, 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 Southwest Washington Behavioral Health Regional Support Network, Clark County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements, and have issued our report thereon dated July 15, 2015. Our report includes information on the intention of the Network to transfer patient services and cease operations in 2016. Managements' plans in regards to these matters are described in the notes to the financial statements.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 15, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Southwest Washington Behavioral Health Regional Support Network
Clark County
January 1, 2014 through December 31, 2014**

Board of Appointed Representatives
Southwest Washington Behavioral Health Regional Support Network
Longview, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Southwest Washington Behavioral Health Regional Support Network, Clark 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, 2014. 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, 2014.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Southwest Washington Behavioral Health Regional Support Network Clark County January 1, 2014 through December 31, 2014

Board of Appointed Representatives
Southwest Washington Behavioral Health Regional Support Network
Longview, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Southwest Washington Behavioral Health Regional Support Network, Clark County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements as listed on page 16.

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 Southwest Washington Behavioral Health Regional Support Network, as of December 31, 2014, 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.

Matters of Emphasis Regarding Continued Operations

As discussed in Noted V(G) to the financial statements, the Network intends to adopt a new model for patient care. This will lead to the closure of the Network in 2016 as patient care services will be transferred to the State. The financial statements do not include any adjustments that might result from closure of the Network. Our opinion is not modified with respect to this matter.

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 17 through 22 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 July 15, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 15, 2015

FINANCIAL SECTION

**Southwest Washington Behavioral Health Regional Support Network
Clark County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance Compared to Budget
(GAAP Basis) and Actual – General Fund – 2014

Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Southwest Washington Behavioral Health's (SWBH) discussion and analysis is a narrative overview of the SWBH financial activities for the year ended December 31, 2014. The information presented here should be read in conjunction with the financial statements and notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

- SWBH's assets exceeded its liabilities at December 31, 2014 and 2013 by \$30.0 million and \$16.0 million, respectively.
- Net investment in capital assets is not a significant amount of net position, with a value of \$127,181 and \$93,141 at December 31, 2014 and 2013, respectively. Of the remaining net position, \$21.4 and \$10.8 million at December 31, 2014 and 2013, respectively, may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- SWBH's total net position showed an increase of \$14.0 million, or 87% during 2014.
- As of December 31, 2014, SWBH's governmental fund reported an ending fund balance of \$30.0 million. Nearly 43% of this total amount, \$11.5 million, is available for spending at the government's discretion. Similarly, \$5.4 million or 34% is available for spending at the government's discretion at December 31, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the Southwest Washington Behavioral Health's (SWBH) basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other financial discussion and analysis of certain plans, projects and trends necessary for understanding the full context of the financial condition of SWBH.

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

Government-wide financial statements provide readers with a broad overview of SWBH's finances in a manner similar to a private-sector business, distinguishing functions of SWBH 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 SWBH'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 the Southwest Washington Behavioral Health'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.

The statement of activities presents information showing how the government's net position changed during the reporting period. All changes in net position are reported using the accrual

basis of accounting which requires that revenues are reported when they are earned and expenses are reported when the goods and services are received. Items such as unpaid vendor invoices for items received by year end, and earned but unused vacation leave and 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 by year end.

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. The SWBH, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. Because SWBH 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

SWBH has only one fund under this category, called the General Fund. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present SWBH'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. 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 accrual basis focus, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives readers a better understanding of 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 a reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

SWBH maintains budgetary controls over its operating fund. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental fund budgets are established in accordance with state law.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Management considers the financial position of SWBH to have increased since inception. As noted earlier, changes in net position may serve as a useful indicator of a government's financial position. SWBH net position totaled \$30,013,834 at December 31, 2014.

Net Position

	Governmental Activities 2014	Governmental Activities 2013
Current and other assets	\$ 36,175,342	\$ 21,796,018
Capital assets (net of accumulated depreciation)	127,181	93,141
TOTAL ASSETS	36,302,523	21,889,159
Long-term liabilities	71,796	82,362
Other liabilities	6,216,892	5,778,280
TOTAL LIABILITIES	6,288,688	5,860,642
NET POSITION		
Net investment in capital assets	127,181	93,141
Restricted	8,522,612	5,096,771
Unrestricted	21,364,041	10,838,605
TOTAL NET POSITION	\$ 30,013,834	\$ 16,028,517

Net position representing resources that are subject to external restrictions on how they may be used equates to 28% at December 31, 2014. The remaining balance, unrestricted net position, of \$21,364,041 (represents the amount that may be used to meet SWBH's ongoing obligations).

The smallest portion of SWBH net position (less than one percent) reflects its net investment in capital assets. SWBH capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending.

At December 31, 2014, SWBH reports positive balances in all three categories of net position, for the government as a whole. Medicaid expansion was enacted in 2014 and the inflow of revenue was much higher than anticipated due to a very high "newly eligible" rate. The excess funding was over \$1.15 million per month and expansion of services was not as rapid as the new funding coming into SWBH.

Statement of Activities

SWBH total net position increased by \$14.0 million in 2014. A summary version of the Statement of Activities is shown in the following table. The following table depicts the relationship of revenues and expenses for SWBH governmental activities.

Change in Net Position

	Governmental Activities 2014	Governmental Activities 2013
Revenues:		
Program revenues:		
Charges for services	\$ 55,509,176	\$ 35,650,457
Operating grants and contributions	9,720,167	10,744,596
Capital grants and contributions	-	-
General revenues:		
Unrestricted investment earnings	94,405	51,040
Total revenues	65,323,749	46,446,093
Expenses:		
Social Services	51,338,432	46,837,722
Total expenses	51,338,432	46,837,722
Increase in net position	13,985,317	(391,629)
Net position - beginning	16,028,517	14,491,126
Extraordinary item	-	1,929,020
Net position - ending	\$ 30,013,834	\$ 16,028,517

Governmental Activity Analysis

The SWBH's net position increased by \$14.0 million in 2014. This mainly represents charges for services and operating grants that were greater than expenses. During 2013, the net position increased \$1.5 million as reserves were received after the final reconciliation at Clark County.

The largest component of other assets represents cash and cash equivalents. This increased \$14.9 million between 2014 and 2013. This increase represents realization of revenues exceeding expenses. Other liabilities are mainly made up of accounts payable. This increased from \$5.7 million at the end of 2013 to \$6.0 million at the end of 2014.

FINANCIAL ANALYSIS OF SWBH FUNDS

Governmental Funds Analysis

SWBH has one governmental fund.

The General Fund is the chief operating and only fund of SWBH. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11.5 million. At the end of 2013, the unassigned fund balance of the general fund was \$5.4 million. As a measure of the general fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. At the end of 2014, the total fund balance of \$30,125,972 is 58% of total general fund expenditures.

The General Fund had an increase in fund balance of 86% at the close of 2014.

GENERAL FUND BUDGETARY HIGHLIGHTS

SWBH budgets on a biennial basis. The biennium ends at December 31, 2015. General Fund revenues came in at 57% of the anticipated budget, while expenditures were 43% of the budget.

Differences between the original budget and the final amended are a result of Medicaid expansion. While additional programs were added and provider contracts increased, the need for services in the community did not expand as fast as the funding being received. An RFP and system expansion occurred during 2014 awarding an additional \$11,120,864 to mental health service providers. The agency's will take time to develop the capacity to expend the funding however.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

SWBH's investment in capital assets, including construction in progress for its governmental activity as of December 31, 2014, was \$127,181 (net of accumulated depreciation). This investment in capital assets consists of equipment and software.

	Governmental Activities	
	12/31/2014	12/31/2013
Machinery and equipment	\$ 51,532	\$ 46,507
Intangibles	75,650	46,634
Total	\$ 127,181	\$ 93,141

Additional information on the SWBH capital assets can be found in the Notes to the Financial Statements.

Long-Term Debt

SWBH has no long-term debt other than compensated absences which can be found in the Notes to the financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Several factors were considered and affected the preparation of SWBH 2015 budget.

- Medicaid expansion beginning in 2014, SWBH continues to expect increasing revenues as the number of eligible
- SWBH anticipates an annual increase in rates of up to 3% for providers that deliver services on a fee-for-service basis.
- With Medicaid expansion the state is expected to reduce the non-Medicaid state funding in our contract an additional by \$1 million in 2015.
- Cowlitz County was not expected to be departing in 2015 when the budget was originally developed.

Other Potentially Significant Matters

In February of 2015, Cowlitz County made the decision to transfer RSN's and will be joining the Gray's Harbor RSN. This will lead to a transfer of reserve funds to Gray's Harbor of \$6,706,883 during 2015. Additionally, Clark and Skamania County have elected to become early adopters of the state's new model of patient care and in May of 2015 they officially submitted their intention. This will lead to the closure of SWBH in March or June of 2016. The fund balance

that remains after all obligations are paid will be delivered back to the State to use at their own discretion.

Requests for Information

This financial report is designed to provide a general overview of the SWBH 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 Southwest Washington Behavioral Health, P.O. Box 664, Vancouver, WA 98666.

SOUTHWEST WASHINGTON BEHAVIORAL HEALTH

Statement of Net Position

December 31, 2014

Assets:	Governmental Activities
Cash and Cash Equivalents	\$ 34,302,159
Receivables (Net of Allowance for Uncollectible)	305,533
Prepaid Items	1,567,649
Capital Assets Net of Accumulated Depreciation:	127,181
Total Assets	<u>36,302,522</u>
Liabilities:	
Accounts Payable and Other Current Liabilities	6,049,369
Noncurrent Liabilities:	
Due within One Year	167,523
Due in More than One Year	71,796
Total Liabilities	<u>6,288,688</u>
Net Position:	
Net Investment in Capital Assets	127,181
Restricted for:	
Mental Health	8,522,612
Unrestricted	21,364,040
Total Net Position	<u>\$ 30,013,834</u>

The notes to the financial statements are an integral part of this statement

Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
PRIMARY GOVERNMENT						
Governmental Activities:						
Social Services	\$ 51,338,431	\$ 55,509,176	\$ 9,720,167	\$ -	\$ 13,890,913	\$ 13,890,913
TOTAL GOVERNMENTAL ACTIVITIES	51,338,431	55,509,176	9,720,167	-	13,890,913	13,890,913
Total Primary Government	\$ 51,338,431	\$ 55,509,176	\$ 9,720,167	\$ -	\$ 13,890,913	\$ 13,890,913
General Revenues:						
Unrestricted Investment Earnings					\$ 94,404	\$ 94,404
Total General Revenues					94,404	94,404
Change in Net Position					13,985,317	13,985,317
Net Position - Beginning					16,028,517	16,028,517
Net Position - Ending					\$ 30,013,834	\$ 30,013,834

The notes to the financial statements are an integral part of this statement

Governmental Fund
Balance Sheet
December 31, 2014

	<u>General Fund</u>
Assets:	
Cash and Cash Equivalents	\$ 34,302,159
Investments	
Accounts Receivable (net)	116,156
Due from Other Governmental Units	189,377
Prepaid Expense	1,567,649
Total Assets	<u>\$ 36,175,341</u>
Liabilities and Fund Balances:	
Liabilities:	
Accounts Payable	\$ 5,871,834
Other Accrued Liabilities-Wages Payable	177,535
Total Liabilities	<u>6,049,369</u>
Fund Balances:	
Nonspendable	1,567,649
Restricted	8,522,612
Assigned-PIHP Operating Reserve	7,598,814
Assigned-State Operating Reserve	941,025
Unassigned	11,495,871
Total Fund Balances	<u>30,125,971</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 36,175,341</u>

Amounts reported for governmental activities in the statement of net position are different because (See Note II also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	127,181
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Other long-term assets are not available to pay for current-period expenditures and, therefore are not reported in the funds (Compensated Absences)	(239,319)
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Net position of governmental activities	<u>\$ 30,013,834</u>
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The notes to the financial statements are an integral part of this statement

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2014

	<u>General Fund</u>
Revenues:	
Intergovernmental Revenue	
Indirect Federal Grants	\$ 659,045
State Grants	9,061,122
Charges for Services	55,488,594
Interest Earnings	94,404
Miscellaneous	<u>20,582</u>
Total Revenues	<u>65,323,748</u>
Expenditures:	
Current	
Social Services	51,207,600
Capital Outlay	<u>62,823</u>
Total Expenditures	<u>51,270,423</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,053,325
Fund Balance at Beginning of Year	16,072,646
Prior period adjustment	<u>-</u>
Fund Balance at End of Year	<u>\$ 30,125,971</u>

The notes to the financial statements are an integral part of this statement

SOUTHWEST WASHINGTON BEHAVIORAL HEALTHReconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of ActivitiesYear Ended December 31, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds:	\$	14,053,325
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Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	34,041
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(102,049)
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Change in net position of governmental activities	\$	<u>13,985,317</u>
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The notes to the financial statements are an integral part of this statement

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Compared to Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts			
	Original 2014-2015 Budget	Final 2014-2015 Budget	Actual Year to Date	Variance with Final Budget
Revenues:				
Intergovernmental	20,125,200	20,125,200	9,720,167	(10,405,033)
Charges for Services	77,504,668	94,714,260	55,488,594	(39,225,666)
Interest Earnings	100,000	125,000	94,404	(30,596)
Miscellaneous	-	-	20,582	20,582
Total Revenues	<u>97,729,868</u>	<u>114,964,460</u>	<u>65,323,747</u>	<u>(49,640,712)</u>
Expenditures:				
Current				
Social Services	102,629,866	118,578,425	51,207,600	67,370,825
Capital Outlay	100,000	100,000	62,823	37,177
Total Expenditures	<u>102,729,866</u>	<u>118,678,425</u>	<u>51,270,423</u>	<u>67,408,002</u>
Excess (Deficiency) of Revenues Over (under) Expenditures	(4,999,998)	(3,713,965)	14,053,325	17,767,290
Fund Balance at Beginning of Biennium	16,072,646	16,072,646	16,072,646	-
Fund Balance at End of Year	<u>\$ 11,072,648</u>	<u>\$ 12,358,681</u>	<u>\$ 30,125,971</u>	<u>\$ 17,767,290</u>

The notes to the financial statements are an integral part of this statement

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Southwest Washington Behavioral Health (SWBH), the primary government, 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

The Southwest Washington Behavioral Health (SWBH) was formed July 16, 2012, under an inter-local agreement between Washington's Clark, Cowlitz and Skamania counties. SWBH opened for business on October 1, 2012. SWBH 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 SWBH three county catchment areas.

SWBH is governed by a three member Board. The Board is responsible for establishing SWBH policy, assessing community public health needs, approving the annual budget, and reviewing ongoing activities of SWBH. Members of the Board are elected officials representing counties in the area. Each of the three counties has authority to appoint one member to the SWBH Board of Directors.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

SWBH has only one fund, the General Fund, which accounts for governmental activities. All activities are reported in that fund.

The statement of activities demonstrates the degree to which the direct 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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are separate financial statements reporting additional and more detailed information about the primary government. In addition, separate financial statements would be provided for governmental funds, proprietary funds, and fiduciary funds, (even though the latter are excluded from the government-wide financial statements) if SWBH had more than one fund.

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental fund financial statements report 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 government considers revenues to be available if they are collected within 60 days of the end of the current 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. All other revenue items are considered to be measurable and available only when cash is received by SWBH. 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. Currently SWBH only has compensated absences as long-term debt.

SWBH reports its one and only major governmental fund. The general fund is SWBH's operating fund. It accounts for all financial resources of the general government.

D. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash and cash equivalents and investments

SWBH is required to maintain all cash and investment accounts with the Clark County, WA, Treasurer. These amounts are either held on behalf of SWBH as cash for operations or invested in 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. See Note IV(A).

2. 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 pronouncements are included. The recognition of hospital inpatient payables, as required by DSHS/MHD, are recognized 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 SWBH.

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

3. Prepaid Items

The prepaid expense represents the initial one twelfth payment to contractors to provide adequate cash flow until service data is received. This payment is reconciled at the end of the contract year.

4. Capital assets

Capital assets include equipment. SWBH defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Any improvement with a cost greater than \$15,000 and an estimated useful life greater than two years is also capitalized.

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. Equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Vehicles	5-8 years
Office Equipment	5-10 years
Computer Equipment	3-5 years
Software	5 years

See Note IV(C).

5. Compensated absences

It is SWBH policy to permit employees to accumulate earned but unused vacation/sick leave benefits. All vacation/sick pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in the governmental fund 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 it represents a reconciling item between the fund and government-wide presentations. Employees receive vacation pay, which may be accumulated up to a maximum of 240 hours, which is payable upon resignation, retirement or death. Sick leave may accumulate up to a maximum of 1,000 hours. An employee leaving SWBH due to retirement or layoff is entitled to be paid for unused vacation and 25% of sick leave after completion of six months and five years of service respectively. Employee leave and sick benefit accrued liability for 2014 was \$239,319, including estimated benefits.

**Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014**

6. Fund balance classifications

Assets in excess of liabilities are reported as fund balances and are segregated into separate classifications indicating the extent to which SWBH is bound to honor constraints on the specific purposes for which those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or are legally or contractually required to be maintained intact. Resources in nonspendable form include deferred charges, petty cash accounts and revolving funds.

Restricted: Fund balance is reported as *restricted* when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. State contract requires reserves for risk and inpatient services for the individuals served by SWBH. These percentages are currently 14% for the PIHP contract and 4.9% for the State contract.

Committed: Fund balance is reported as *committed* when the SWBH passes a resolution that places specific constraints on how the resources may be used. The Board can modify or rescind the ordinance at any time through passage of an additional ordinance.

Assigned: Fund balance is reported as *assigned* when the Board assigns amounts for a specific purpose. SWBH policy establishing this authorization is to adopt a resolution. These percentages are currently 13% for the PIHP contract and 13.5% for the State contract.

Unassigned: Fund balance reported as unassigned represent net resources in excess of nonspendable, restricted, committed and assigned fund balance.

When both restricted and unrestricted resources are available, SWBH's policy is to use unrestricted resources first, and then restricted resources, as they are needed. When committed, assigned or unassigned amounts are available, SWBH's policy is to use unassigned resources first, assigned secondly and finally committed resources.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. *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 governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

are not reported as expenditures in governmental funds.” The details of this 2014 difference are as follows:

Compensated Absences	\$ <u>(102,050)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>(102,050)</u></u>

NOTE III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

1. Scope of Budget

Biennial appropriated budget is adopted for the general fund on the accrual basis of accounting, and appropriations for the general fund lapse at the end of the biennium.

2. Amending the Budget

Any revisions that alter the total expenditures of SWBH must be approved by the Board.

The budget amounts showing the financial statements are the final authorized amounts as revised during the biennium.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the biennium.

NOTE IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The Clark County Treasurer is empowered by the State to act as fiduciary for the County and other taxing districts, which includes the deposit and prudent investment of public funds as legally prescribed by the laws of the State of Washington. The Clark County Treasurer acts as fiduciary for SWBH and administers an investment pool in which SWBH participates. This pool is not registered with the Securities and Exchange Commission. Regulatory oversight is provided by the Clark County Treasurer's Office Finance Committee, which by statute consists of the Treasurer, the Auditor and the Chair of the Board of County Commissioners. The pool is not rated. The committee approves the investment policy and makes all appropriate rules and regulations to carry out the provisions of RCW 36.48.010 through 36.48.060. The fair value of SWBH's position in the pool is the same as the value of the pool shares.

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

Qualified bank depositories are those specified by the Washington Public Deposit Protection Commission. Investments may be made in the form of banker's acceptances, U.S. Treasury bills and certain other government agency obligations. Clark County policy dictates that all investment instruments other than certificates of deposit and the Washington State Investment Pool be transacted on the delivery versus payment basis.

SWBH's interest in the pool at December 31, 2014 was \$34,302,159 which is stated at fair value. Investments in the County's pool are not subject to categorization because specific instruments cannot be distinguished between those participating in the pool.

B. RECEIVABLES AND PAYABLES BALANCES

Receivables as of December 31, 2014 for SWBH, including the applicable allowance for uncollectible accounts, are shown as follows:

Receivables:

2014	Accounts Receivable	Due from Other Gov'ts	Total
General Fund	\$ 116,156	\$ 189,377	\$ 305,533
Net Receivables	<u>\$ 116,156</u>	<u>\$ 189,377</u>	<u>\$ 305,533</u>

Payables:

2014	Vendors	Salaries and Benefits	Total
General Fund	\$ 5,871,834	\$ 177,534	\$ 6,049,368
Net Payables	<u>\$ 5,871,834</u>	<u>\$ 177,534</u>	<u>\$ 6,049,368</u>

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

C. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets,				
being depreciated/depleted				
Machinery and equipment	53,666	16,025	-	69,691
Intangibles	53,811	46,798	-	100,609
Total assets being depreciated	107,477	62,823	-	170,300
Less accumulated depreciation for:				
Machinery and equipment	7,159	11,000	-	18,159
Intangibles	7,178	17,783	-	24,961
Total accumulated depreciation	14,337	28,783	-	43,120
Total capital assets,				
being depreciated, net	93,140	34,041	-	127,181
Governmental activities, capital assets, net	<u>\$ 93,140</u>	<u>\$ 34,041</u>	<u>\$ -</u>	<u>\$ 127,181</u>

Depreciation expense was charged to the functions/programs of SWBH as follows:

Governmental Activities:

General Government	\$34,041
Total Depreciation-Government Activities	<u>\$34,041</u>

D. RESTRICTED ASSETS

The balances of the restricted asset accounts in the general fund are as follows for December 31, 2014:

	Amount
PIHP Risk/Inpatient Reserve	\$ 8,183,338
State Inpatient Reserve	339,274
	<u>\$ 8,522,612</u>

**Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014**

E. LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term debt changes as of December 31, 2014.

					Due Within
<u>Governmental activities</u>	<u>1/1/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014</u>	<u>One Year</u>
Compensated absences	\$ 137,270	\$ 102,050	\$ -	\$ 239,319	\$ 167,524
Governmental activity long-term liabilities	\$ 137,270	\$ 102,050	\$ -	\$ 239,319	\$ 167,524

NOTE V. OTHER DISCLOSURES

A. RISK MANAGEMENT

SWBH is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; on-the-job injuries to employees; and natural disasters. SWBH purchases commercial excess insurance to cover specific risks and individuals. Coverage limits and deductibles at December 31, 2014 are as follows:

<u>Coverage</u>	<u>Coverage Limits</u>	<u>Deductible</u>
Property Insurance - Contents	\$ 130,000	\$ 500
Workers' Compensation	Statutory	
General Liability	\$ 5,000,000	\$ 10,000
Executive - Directors and Officers	\$ 1,000,000	\$ -
Errors and Omission	\$ 3,000,000	\$ 25,000

There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage.

B. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Substantially all SWBH 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 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.

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;

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education 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 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.

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 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 the age of 65 may receive actuarially reduced benefits.

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.

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

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

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 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, if hired prior to May 1, 2013:

- 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 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 actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate.

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

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 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 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, and were hired before May 1, 2013, 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.
- 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 age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013 :

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	368,272

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.

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 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, 2014, are as follows:

Members Not Participating in JBM:

Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	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 benefit 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.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

***Minimum rate.

Both SWBH and the employees made the required contributions. The SWBH required contributions for the year ended December 31 were as follows:

	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2014	\$203,890	\$92,940
2013	\$174,647	\$69,218
2012	\$32,687	\$13,496

**Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014**

C. FEDERAL FINANCIAL ASSISTANCE

The SWBH recorded the following federal grant revenues for 2014.

Federal Catalog No.	Government	Program	Amount
93.958	Aging and Disability Services	MHBG	\$562,107
93.950	Aging and Disability Services	PATH	<u>96,939</u>
Total Federal Financial Assistance			<u>\$659,045</u>

D. CONTINGENT LIABILITIES

The SWBH 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 the terms of the grants. SWBH management believes that such disallowances, if any, will be immaterial.

E. OPERATING LEASES

The SWBH 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 SWBH's statement of net position. Increases in rent, if any, are contingent upon the consumer price index at defined intervals.

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, 2014:

Year Ending December 31	Total
2015	333,334
2016	<u>83,187</u>
Total minimum payments required	<u>\$ 416,521</u>

Total minimum payments required at December 31, 2014 were \$502,001. Total rent expense for the year ended December 31, 2014 was \$87,638.

**Southwest Washington Behavioral Health
Notes To Financial Statements
December 31, 2014**

F. RELATED PARTY TRANSACTIONS

SWBH was formed by interlocal agreements between Clark, Cowlitz, and Skamania counties. Below are the related party agreements that were active in 2014.

1. Clark County:
Crisis Services, Mental Health Coordinator, Center for Community Health Facility Lease, Human Resources and Benefits, and Treasurer Services.
2. Cowlitz County:
A county liaison position and the Ocean Beach Highway office lease.
3. Skamania County:
A county liaison position and contract for mental health services provided in Skamania County.

G. SUBSEQUENT EVENTS

In February of 2015, Cowlitz County made the decision to transfer RSN's and will be joining the Gray's Harbor RSN. This will lead to a transfer of reserve funds to Gray's Harbor of \$6,706,883 during 2015. Additionally, Clark and Skamania County have elected to become early adopters of the state's new model of patient care and in May of 2015 they officially submitted their intention. This will lead to the closure of SWBH in March or June of 2016. The fund balance that remains after all obligations are paid will be delivered back to the State to use at their own discretion.

Southwest Washington Behavioral Health
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Schedule 16

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	Federal CFDA Number	Other Identification Number	Expenditures			Footnote Reference
				From Pass- Through Awards	From Direct Awards	Total Amount	
Department of Health and Human Services Substance Abuse and Mental Health Services Administration/pass through from Aging and Disability Services Administration	Block Grants for Community Mental Health Services	93.958	1369-76934, 1369-76934-01	\$ 562,106.70	\$ -	\$ 562,106.70	3
Department of Health and Human Services Substance Abuse and Mental Health Services Administration/pass through from Aging and Disability Services Administration	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1269-61086, 1369-83116, 1269-61092, 1369-83132	\$ 96,938.74	\$ -	\$ 96,938.74	2,3
Total Federal Awards Expended				\$ 659,045.44		\$ 659,045.44	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**Southwest Washington Behavioral Health
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014**

Notes 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting as the organization uses the accrual basis of accounting.

Note 2 - Program Costs

The amounts shown as current expenditures represent only the federal portion of the program costs.

Note 3 - Amounts Awarded to Subrecipients

Included in the total amount expended for these programs is \$659,045 that were passed through to subrecipients that administered their own projects.

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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