



# Washington State Auditor's Office

Government that works for citizens

## **Financial Statements and Federal Single Audit Report**

### **North Sound Regional Support Network**

### **(North Sound Mental Health Administration)**

**Skagit County**

**For the period January 1, 2015 through December 31, 2015**

**Published September 29, 2016**

**Report No. 1017678**





## Washington State Auditor's Office

September 29, 2016

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  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**North Sound Mental Health Administration  
Skagit County  
January 1, 2015 through December 31, 2015**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the North Sound Mental Health Administration are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities and each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### 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 in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster 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 the Uniform Guidance, was \$750,000.

The Network qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

# 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, 2015 through December 31, 2015**

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, 2015, 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 27, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Network implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

## **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.

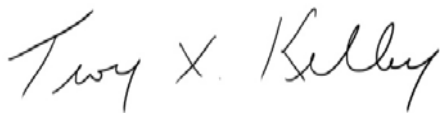
## COMPLIANCE AND OTHER MATTERS

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  
OLYMPIA, WA

September 27, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**North Sound Mental Health Administration  
Skagit County  
January 1, 2015 through December 31, 2015**

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) Compliance Supplement* that could have a direct and material effect on each of the Network's major federal programs for the year ended December 31, 2015. The Network's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

### **Other Matters**

We noted certain matters that we have reported to the management of the Network in a separate letter dated September 27, 2016. Our opinion on each major federal program is not modified with respect to these matters.

## **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 the Uniform Guidance, 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

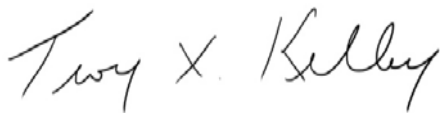
compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement 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.

We noted certain matters that we have reported to the management of the Network in a separate letter dated September 27, 2016.

### **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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 27, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **North Sound Mental Health Administration Skagit County January 1, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements as listed on page 15.

### **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, 2015, 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**

As discussed in Note 1 to the financial statements, in 2015, the Network adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

In addition, as discussed in Note 11 to the financial statements, on March 31, 2016 North Sound Regional Support Network will cease operation and as of April 1, 2016 will become North Sound Behavioral Health Organization (BHO). 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 16 through 19 and pension plan information on pages 42 through 45 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.

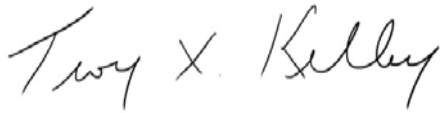
### ***Supplementary and Other Information***

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 27, 2016 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 27, 2016

## **FINANCIAL SECTION**

**North Sound Mental Health Administration  
Skagit County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2015

Schedule of Employer Contributions – PERS 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2015

Schedule of Employer Contributions – PERS 2/3 – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

## North Sound Regional Support Network

### MANAGEMENT'S DISCUSSION AND ANALYSIS

North Sound Regional Support Network (NSRSN) 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, 2015. 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 \$20,321,121 higher in 2015 compared to 2014 on the statement of revenues and expenditures. Total revenues are \$6,754,108 higher than the prior year on the same statements. Ending fund balance increased to \$56,274,830 in 2015 from \$47,633,253 in 2014. The Board of Directors has again committed fund balances aimed at projects to expand, improve and meet the changing requirements of the mental health and substance use disorder systems in our region. This includes increasing infrastructure development and substance use disorder funding needs higher than projected revenues.

Fiscal year 2015 is the last year North Sound Regional Support Network will be a Regional Support Network. On March 31, 2016 North Sound Regional Support Network will cease operations. On April 1, 2016 we will become North Sound Behavioral Health Organization (BHO). As an entity the North Sound BHO will continue to manage public mental health contracts after April 1, 2016. In addition North Sound BHO will assume responsibility for managing the Substance Use Disorder (SUD) contracts as well.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to NSRSN'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 NSRSN'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 NSRSN'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 NSRSN'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 NSRSN's net position changed during 2015. 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 2015, 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 in 2015.

#### 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. NSRSN, like other state and local governments, is required to use fund accounting. Because NSRSN 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

NSRSN 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 NSRSN'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 Funds (continued)

governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available. Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term 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.

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

NSRSN has no proprietary funds.

### Fiduciary Funds

NSRSN 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. NSRSN's Net Position total was \$47,539,251 at December 31, 2014 compared to \$56,274,830 at December 31, 2015. Please note the unrestricted net position has gone from a \$38,627,609 to \$34,961,204.

<b>Table 1: Summary of Net Position 2015 verses 2014</b>		
<b>As of December 31, 2015</b>		
	<b>2014</b>	<b>2015</b>
Current Assets	\$56,260,023	\$65,250,912
Capital Assets	76,382	734,356
<b>Total Assets</b>	<b>\$56,336,405</b>	<b>\$65,985,268</b>
Deferred outflow of Resources		\$212,037
<b>Total Deferred outflow of Resources</b>		<b>\$212,037</b>
Current Liabilities	\$7,016,601	\$7,801,972
Non-Current Liabilities	170,384	1,843,796
<b>Total Liabilities</b>	<b>\$7,186,985</b>	<b>\$9,645,768</b>
Deferred Inflow of Resources	\$1,610,169	\$276,707
<b>Total Deferred Inflow of Resources</b>	<b>\$1,610,169</b>	<b>\$276,707</b>
Net Position:		
Investment in Capital Assets	\$76,382	\$734,356
Restricted	\$8,835,260	20,579,270
Unrestricted	38,627,609	34,961,204
<b>Total Net Position</b>	<b>\$47,539,251</b>	<b>\$56,274,830</b>

NSRSN's total assets are \$65,985,268 at December 31 2015. The majority of NSRSN assets were accounted for in cash, cash equivalents, and investments. At December 31, 2015, the NSRSN had outstanding liabilities of \$9.6 million, a majority of which is due within a year. Included in liabilities in the table is \$4,294,075 in accounts payable, \$3,466,523 due to governmental units.

A change in accounting principles for the reporting of pensions also impacted the Statement Net Position of the North Sound. These reporting changes resulted in Deferred Outflow of resources of \$212,037. An additional net pension liability in the amount of \$1,415,452 was created as well as \$216,935 in deferred inflows from pensions.

The deferred out flows of resources increased to \$212,037 in 2015 from \$0 in 2014 due to the pension adjustment. The Deferred inflows of resources went down from \$1,610,169 in 2014 to \$276,707 in 2015; \$216,935 of the total amount is from the pension adjustment.

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, 2015 is \$34,961,204.

### Statement of Activities

Refer to Table 2 when reading the following analysis of the Statement of Activities. NSRSN's total net position increased by \$10,151,031 in 2015 compared to an increase of \$23,718,044 in 2014. Governmental revenue increased in 2015 by \$6,606,801 and expenses increased by \$20,321,121 compared to 2014. In addition there is a prior period adjustment for implementing GASB 68 pension reporting changes in the amount of (\$1,415,452).

<b>Table 2: Summary of Statement of Activities</b>		
<b>For the Year Ended December 31, 2015</b>		
	<b>2014</b>	<b>2015</b>
<b>Governmental Activities</b>		
Governmental Revenues	\$104,656,275	\$111,263,076
Governmental Expenditures	81,120,657	101,441,778
<b>Net Governmental Activities</b>	<b>\$23,535,618</b>	<b>\$9,821,298</b>
<b>General Revenues</b>		
Investment Earnings	\$153,991	\$310,318
Miscellaneous Revenue	28,435	19,415
<b>Total General Revenue</b>	<b>\$182,426</b>	<b>\$329,733</b>
<b>Change in Net Position</b>	<b>\$23,718,044</b>	<b>\$10,151,031</b>
<b>Prior Period Adjustment</b>		(\$1,415,452)
<b>Net Position - Beginning</b>	<b>\$23,821,207</b>	<b>\$47,539,251</b>
<b>Net Position - Ending</b>	<b>\$47,539,251</b>	<b>\$56,274,830</b>

### FINANCIAL ANALYSIS OF THE NSRSN'S FUNDS

As noted earlier, NSRSN uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. NSRSN 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 NSRSN's General Fund assets and liabilities as of December 31, 2015.

### NSRSN General Fund

The focus of NSRSN'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, 2015, NSRSN's general fund reported a fund balance of \$57,430,542 compared to the prior year of \$47,633,253. There is an unassigned fund balance of \$5,524,176 in 2015 compared to the unassigned fund balance of \$4,678,626 in 2014. A Medicaid risk and inpatient reserve fund balance of \$9,235,755 is not available for spending because it is a contractually required reserve. The state funds inpatient reserves is \$794,016 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.

The general fund is in good condition at the end of 2015. The balance sheet showed an unassigned fund balance of \$5,524,176 at the end of 2015 compared to a \$4,678,626 unassigned fund balance at the end of 2014. This change is mainly due increased Medicaid funding and the board of directors setting aside more funds to expand improve and meet the changing requirements of the public mental health and the addition of the substance use disorder system starting in 2016.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The original adopted operating budget for the North Sound RSN was \$95,812,698 for revenue and expense. The final budget was \$106,312,698 for revenue and expense (see Statement of Revenue Expenditures and Change in fund Balance – Budget to Actual for more information). Most of the budget increase was due to the increase in Medicaid rates and population. The 2015 Medicaid revenue was budgeted at \$77,232,428. We increase the Medicaid revenue budget by \$10,500,000 in October 2015. We also increased our operating expense budget by \$10,500,000 from \$95,812,698 to \$106,312,698. Actual expenditures during 2015 were \$102,102,176.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

NSRSN has computers and lease hold improvements recorded as capital assets. We added lease hold improvements on for our new office in the amount of \$688,237 during 2015. The total net book value at December 31, 2015 is \$734,356.

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

#### **Long-Term Debt**

NSRSN issued long term debt during 2015 in the amount of \$306,656 to help purchase lease hold improvements for the new office. We also have some leases and vacation, sick leave payouts. Please refer to the notes to the financial statements.

### **ECONOMIC FACTORS**

NSRSN 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 the clients in our five county region. The North Sound planned for taking over most of the public substance use disorder system starting in 2016. We have made plans, conducted public meetings, and done trainings to potential providers; we have also set aside funds to the expansion of that system. We continue to struggle to keep up with the demand for services in some parts of our region. We had the funding to expand services but did not have a sufficiently trained local labor pool to provide all of the services we wanted to purchase. We could not expand our programs as fast as the funding increase in 2015.

The state legislator passed Second Substitute Senate Bill 6312 on April 4, 2014. This bill directs the integration of mental health and substance use disorder treatment. On April 1, 2016 we will take over the responsibility to fund both outpatient and residential substance use disorder treatment services with our state managed care contract.

#### **Requests for Information**

This financial report is designed to provide a general overview of NSRSN'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  
301 Valley Mall Way, Suite 110  
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, 2015

	<u>Governmental Activities General Fund</u>
<b><u>ASSETS</u></b>	
<b>Current Assets</b>	
Cash	\$ 1,888,145
Cash Equivalents	18,140,630
Investments	44,104,710
Deposits	21,821
Miscellaneous receivables	2,201
Accrued Interest	16,571
Due From Other Gov't Units	1,076,834
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 65,250,912</b>
<b>Non-current Assets</b>	
Capital Assets Not being Depreciated	688,237
Capital Assets being Depreciated	233,012
Less: Accumulated Depreciation	186,893
Net Assets Being Depreciated	46,119
<b>TOTAL LONG TERM ASSETS</b>	<b>\$ 734,356</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 65,985,268</u></b>
<b><u>Deferred outflow of Resources</u></b>	
Revenue Outflows	212,037
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>	<b><u>\$ 212,037</u></b>
<b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Accounts/Vouchers Payable	\$ 4,294,075
Due To Other Gov't Units	3,466,523
Current Portion of long term Debt	41,374
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 7,801,972</b>
<b>Non-current Liabilities</b>	
Compensated Absences	185,161
Notes Payable	251,865
Net Pension Liability	1,406,770
<b>Total Non-current Liabilities</b>	<b>1,843,796</b>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 9,645,768</u></b>
<b><u>Deferred inflow of Resources</u></b>	
Deferred inflows	276,707
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>	<b><u>\$ 276,707</u></b>
<b>Net Position</b>	
Net Investment in Capital Assets	\$ 734,356
Restricted for Medicaid	16,704,148
Restricted for State Funds	3,875,122
Unrestricted	34,961,204
<b>TOTAL Net Position</b>	<b><u>\$ 56,274,830</u></b>

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

# NORTH SOUND REGIONAL SUPPORT NETWORK

## Statement Of Activities For The Year Ended December 31, 2015

	Program Revenue				Net (expense) Revenue & Changes in Net Position	
	Expenses	Charges for service	Grants & Fees		Primary Government	
			Operating Contributions	Capital Grants & Contributions	Governmental Activity	Business Type Activities Total
<b><u>Governmental Activities:</u></b>						
Mental & Physical Health	\$ 101,441,778	110,043,037	\$ 1,220,039		9,821,298	9,821,298
<b>Total Governmental Activities</b>	<b>\$ 101,441,778</b>	<b>110,043,037</b>	<b>\$ 1,220,039</b>	<b>-</b>	<b>\$ 9,821,298</b>	<b>\$ 9,821,298</b>
<b><u>Business-Type Activities:</u></b>						
<b>Total Business-Type Activities:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 101,441,778</b>	<b>110,043,037</b>	<b>\$ 1,220,039</b>	<b>-</b>	<b>\$ 9,821,298</b>	<b>\$ 9,821,298</b>
<b><u>General Revenues</u></b>						
Investment Earnings					\$ 310,318	\$ 310,318
Miscellaneous					19,415	19,415
<b><u>Transfers</u></b>					<b>-</b>	<b>-</b>
<b>Total General Revenue &amp; Transfers</b>					<b>\$ 329,733</b>	<b>\$ 329,733</b>
<b>Change in Net Position</b>					<b>\$ 10,151,031</b>	<b>\$ 10,151,031</b>
<b>Net Position-Beginning</b>						<b>47,539,251</b>
<b>Change in Accounting Principals: (Prior Period Adjustment)</b>						
Adjustment to implement a change in Accounting Principles (GASB 68) regarding Pensions						(1,415,452)
<b>Net Position-Ending</b>						<b>\$ 56,274,830</b>

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

# **NORTH SOUND REGIONAL SUPPORT NETWORK**

## **Balance Sheet Governmental Funds**

**December 31, 2015**

	<b>General Fund</b>	<b>Total</b>
<hr/>		
<b><u>ASSETS</u></b>		
<b>Assets</b>		
Cash	\$ 1,888,145	1,888,145
Cash Equivalents	18,140,630	18,140,630
Investments	44,104,710	44,104,710
Deposits	21,821	21,821
Accrued Interest	16,571	16,571
Miscellaneous Receivable	2,201	2,201
Due From Other Gov't Units	1,076,834	1,076,834
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 65,250,912</b>	<b>\$ 65,250,912</b>
<hr/>		
<b><u>LIABILITIES AND FUND BALANCE</u></b>		
<b>Liabilities</b>		
Accounts/Vouchers Payable	\$ 4,294,075	\$ 4,294,075
Due To Other Gov't Units	3,466,523	3,466,523
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 7,760,598</b>	<b>\$ 7,760,598</b>
<hr/>		
<b><u>Deferred Inflow of Resources</u></b>		
Intergovernmental Revenue Received But Not Earned	59,772	59,772
	<b>\$ 59,772</b>	<b>\$ 59,772</b>
<hr/>		
<b><u>Fund Balance</u></b>		
Restricted Fund Balance - Risk & Inpatient Medicaid	\$ 9,235,755	\$ 9,235,755
Restricted Fund Balance - Inpatient State	794,016	794,016
Restricted Fund Balance - Contracts Medicaid	7,468,393	7,468,393
Restricted Fund Balance - Contracts State	3,081,106	3,081,106
Committed Fund Balance - Medicaid	26,174,202	26,174,202
Committed Fund Balance - State	5,152,894	5,152,894
Unassigned Fund Balance	5,524,176	5,524,176
<b>TOTAL FUND BALANCE</b>	<b>\$ 57,430,542</b>	<b>\$ 57,430,542</b>
<hr/>		
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 65,250,912</b>	<b>\$ 65,250,912</b>
<hr/>		

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

## **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, 2015**

Total fund balance as shown on the Governmental Statement Balance Sheet is \$57,430,542 compared to \$56,274,830 shown on the Statement of Net Position. This is a difference of \$1,155,712.

The reconciling item is compensated absences in the amount of \$185,161. This is not shown on the Balance Sheet of the Governmental Funds but is part of the Statement of Net Position.

The deferred outflows of revenue related to the pension are \$212,037 along with the deferred inflows and the net pension liability in the amounts of \$216,935 and \$1,406,770.

The long term notes and the current portion in the amount of \$251,865 and \$41,374 are not shown on the Balance Sheet of the Governmental Funds but are part of the Statement of Net Position.

The capital assets net of accumulated depreciation in the amount of \$734,356 are shown on the Statement of Net Position and not on the Balance Sheet.

The difference between the statements is  $\$1,155,712 = \$251,865 + \$41,374 + 185,161 - \$212,037 + \$1,406,770 + \$216,935 - 734,356$ .

# NORTH SOUND REGIONAL SUPPORT NETWORK

## Statement of Revenue, Expenditures and Changes In Fund Balance Governmental Funds Year Ended December 31, 2015

	<b>General Fund 2015</b>
<b><u>REVENUES</u></b>	
<u>Intergovernmental Revenue</u>	
Indirect Federal Grants	\$ 1,220,038
<u>Charges for Service</u>	
Charges for Service	109,314,038
Local Funds	729,000
<u>Miscellaneous Revenues</u>	
Investment Interest	310,318
Miscellaneous Revenues	19,415
<b>TOTAL REVENUE</b>	<b><u>\$ 111,592,809</u></b>
<b><u>EXPENDITURES</u></b>	
<u>Current:</u>	
Mental Health	\$ 101,396,367
<u>Capital Outlay</u>	
Mental Health	688,237
<u>Debt Service</u>	
Principal	13,417
Interest	4,155
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 102,102,176</u></b>
Excess of Revenues Over (Under) Expenditures	\$ 9,490,633
<b><u>Other Financing Sources</u></b>	
Proceeds from long Term Note	306,656
Net Change in Fund Balance	\$ 9,797,289
<b>Fund Balance - Beginning 1/1/15</b>	<b>47,633,253</b>
<b>Fund Balance - Ending 12/31/15</b>	<b><u>\$ 57,430,542</u></b>

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



## **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, 2015**

The net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance is \$9,797,289. The change in net position on the Statement of Activities equals \$10,151,031. This represents a difference of (\$353,742).

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 2015 is \$30,263. Capitalized Assets purchased during 2015 are \$688,237.

Principal payments on long term debt are expensed on the Statement of Revenues, Expenditures and Changes in Fund Balance but not on the Statement of Activities. The debt payments during 2015 are \$13,417.

Another difference in reporting is the change in compensated absences from \$170,384 at December 31, 2014 to \$185,161 at December 31, 2015. The difference is \$14,777. Compensated absences represent the vacation and some sick leave pay off amount at year end.

The statement of activities recognizes additional pension expense per GASB 68 and the governmental funds do not. The additional pension expense is (\$3,784). This is the difference between the beginning and ending liability portion of the PERS liability, plus the deferred inflows, minus the deferred outflows:  $(\$3,784) = ((1,406,770 - 1,415,452) + (40,885 + 176,050) - (45,752 + 166,285))$ .

The Statement of Activities does not recognize Other Financing Sources like the Statement of Revenues, Expenditures and Changes in Fund Balance. During 2015 Other Financing Sources in the amount of \$306,656 was recognized on the Statement of Revenues, Expenditures and Changes in Fund Balance

The total difference between the statements is  $(\$353,742) = \$30,263 - 688,237 - 13,417 + 14,777 - 3,784 + 306,656$ .

# NORTH SOUND REGIONAL SUPPORT NETWORK

## Statement of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual General Fund Year Ended December 31, 2015

<u>REVENUES</u>	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<u>Intergovernmental Revenue</u>				
Indirect Federal Grants	1,239,570	1,239,570	1,220,039	(19,531)
State Grants	-	-	-	-
Charges for Service	94,473,128	104,973,128	109,314,037	4,340,909
Local Funds			729,000	729,000
<u>Miscellaneous Revenues</u>				
Investment Interest	80,000	80,000	310,318	230,318
Miscellaneous Revenues	20,000	20,000	19,415	(585)
<b>TOTAL REVENUE</b>	<b>\$ 95,812,698</b>	<b>\$ 106,312,698</b>	<b>\$ 111,592,809</b>	<b>\$ 5,280,111</b>
<u>EXPENDITURES</u>				
Mental & Physical Health	\$ 95,812,698	\$ 105,606,042	\$ 101,396,367	\$ 4,209,675
Capital Outlays		688,656	688,237	419
Debt Service		18,000	17,572	428
<b>TOTAL EXPENDITURES</b>	<b>\$ 95,812,698</b>	<b>\$ 106,312,698</b>	<b>\$ 102,102,176</b>	<b>\$ 4,210,522</b>
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 9,490,633	\$ 9,490,633
<u>Other Financing Sources</u>				
Proceeds from Long Term Note			\$ 306,656	\$ 306,656
Net Change in Fund Balance	\$ -	\$ -	\$ 9,797,289	\$ 9,797,289
<b>Fund Balance - Beginning 1/1/15</b>			\$ 47,633,253	\$ 47,633,253
<b>Fund Balance Ending - 12/31/15</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 57,430,542</b>	<b>\$ 57,430,542</b>

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

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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.

See Note 1 D 7 Compensated Absences.

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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, 2015, \$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 \$ 6,268 at December 31, 2015. Cash on hand at the County Treasurer's office is \$ 1,879,877. In addition to cash at the bank and Treasurers office we have \$18,140,630 classified on the balance sheet as cash equivalents at December 31, 2015. These are invested in the state treasurer's investment pool and money market funds. 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 specific contracts but have not been spent or earned.

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.

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

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 2015 was \$185,161 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.

Nonspendable Fund Balance – The portion of net resources that cannot be spent because either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Committed Fund Balance – Are amounts that are to be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority.

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 \$57,430,542 compared to \$56,274,830 shown on the Statement of Net Position. This is a difference of \$1,155,712.

The reconciling item is compensated absences in the amount of \$185,161. This is not shown on the Balance Sheet of the Governmental Funds but is part of the Statement of Net Position.

The deferred outflows of revenue related to the pension are \$212,037 along with the deferred inflows and the net pension liability in the amounts of \$216,935 and \$1,406,770.

The long term notes and the current portion in the amount of \$251,865 and \$41,374 are not shown on the Balance Sheet of the Governmental Funds but are part of the Statement of Net Position.

The capital assets net of accumulated depreciation in the amount of \$734,356 are shown on the Statement of Net Position and not on the Balance Sheet.

The difference between the statements is  $\$1,155,712 = \$251,865 + \$41,374 + \$185,161 - \$212,037 + \$1,406,770 + \$216,935 - \$734,356$ .

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 \$9,797,289. The change in net position on the Statement of Activities equals \$10,151,031. This represents a difference of (\$353,742).

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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 (continued)

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 2015 is \$30,263. Capitalized Assets purchased during 2015 are \$688,237.

Principal payments on long term debt are expensed on the Statement of Revenues, Expenditures and Changes in Fund Balance but not on the Statement of Activities. The debt payments during 2015 are \$13,417.

Another difference in reporting is the change in compensated absences from \$170,384 at December 31, 2014 to \$185,161 at December 31, 2015. The difference is \$14,777. Compensated absences represent the vacation and some sick leave pay off amount at year end.

The statement of activities recognizes additional pension expense per GASB 68 and the governmental funds do not. The additional pension expense is (\$3,784). This is the difference between the beginning and ending liability portion of the PERS liability, plus the deferred inflows, minus the deferred outflows:  
 $(\$3,784) = ((1,406,770 - 1,415,452) + (40,885 + 176,050) - (45,752 + 166,285))$ .

The Statement of Activities does not recognize Other Financing Sources like the Statement of Revenues, Expenditures and Changes in Fund Balance. During 2015 Other Financing Sources in the amount of \$306,656 was recognized on the Statement of Revenues, Expenditures and Changes in Fund Balance

The total difference between the statements is  $(\$353,742) = \$30,263 - 688,237 - 13,417 + 14,777 - 3,784 + 306,656$ .

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 31<sup>st</sup> 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 2014. 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.

NORTH SOUND REGIONAL SUPPORT NETWORK  
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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.

As of December 31, 2015, the North Sound Regional Support Network cash equivalents and investments are:

<u>Investment</u>	<u>Fair Value of Investments</u>	<u>Total</u>
State Investment Pool	\$ 17,636,082	\$ 17,636,082
Money Market	\$ 504,548	\$ 504,548
Treasurer Note	\$ 6,598,776	\$ 6,598,776
Federal Home Loan Agency	\$ 8,499,802	\$ 8,499,802
General Obligation Bond	\$ 11,987,817	\$ 11,987,817
Federal Farm Credit	\$ 6,003,490	\$ 6,003,490
Fannie Mae	\$ 7,014,825	\$ 7,014,825
Freddie Mac	\$ 4,000,000	\$ 4,000,000
Total	\$ 62,245,340	\$ 62,245,340

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, 2015.

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 \$21,821 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 2015 the accrued interest receivable is \$16,571.

Due from other governmental units in the amount of \$1,076,834 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.

C. Capital Assets and Depreciation

1. General Policies

Major expenditures for capital 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 capital 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.



NORTH SOUND REGIONAL SUPPORT NETWORK  
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NOTE 4 C. Capital Assets (continued)

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.

A summary of changes in capital assets follows:

	Balance <u>1/1/15</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/15</u>
Capital Assets, not being depreciated:				
Construction in Progress:	\$ 0	\$ 688,237	\$ 0	\$ 688,237
Total capital assets, not being depreciated:	\$ 0	\$ 688,237	\$ 0	\$ 688,237
Capital Assets being depreciated:				
Machinery & Equipment	\$ 139,698	\$	\$	\$ 139,698
Leasehold Improvements	\$ 93,314	\$	\$	\$ 93,314
Total Assets being depreciated	\$ 233,012	\$	\$	\$ 233,012
Less accumulated depreciation	\$ 156,630	\$ 30,263	\$	\$ 186,893
Total capital asset being depreciated, net	\$ 76,382	\$ (30,263)	\$	\$ 46,119
Total Capital assets, net	\$ 76,382	\$ 657,974	\$	\$ 734,356

NOTE 5 – LONG TERM DEBT

The long term debt the North Sound has are compensated absences (see note 1 D-7) and notes payable. During 2015 we issued a note payable in the amount of \$306,656 for improvements on our new office building (see Schedule of Liabilities).

Type of Debt	Beginning Balance <u>1/1/15</u>	<u>New Issue</u>	<u>Retirements</u>	Ending Balance <u>12/31/15</u>	Due within One Year
Compensated Absences	\$ 170,384	\$ 47,191	\$ 32,414	\$ 185,161	
Notes Payable	\$ 0	\$ 306,656	\$ 13,417	\$ 293,239	\$ 41,374
Total	\$ 170,384	\$ 353,847	\$ 45,831	\$ 478,400	\$ 41,374

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 2015 rent expense for all operating leases was \$252,837.



NORTH SOUND REGIONAL SUPPORT NETWORK  
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NOTE 6 – LEASES (continued)

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, 2015. 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
2016	\$ 285,728
2017	\$ 276,586
2018	\$ 278,694
2019	\$ 280,803
2020	\$ <u>282,912</u>
Total	\$1,404,723

NOTE 7 - PENSION PLANS

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 1,406,770
Pension assets	\$ 0
Deferred outflows of resources	\$ 212,037
Deferred inflows of resources	\$ 216,935
Pension expense/expenditures	\$ 178,724

**State Sponsored 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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

NORTH SOUND REGIONAL SUPPORT NETWORK  
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NOTE 7 - PENSION PLANS (continued)

**Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

\* For employees participating in JBM, the contribution rate was 12.26%

The North Sound Regional Support Network actual contributions to the plan were \$80,003 for the year ended December 31, 2015.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 7 - PENSION PLANS (continued)

members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

\* For employees participating in JBM, the contribution rate was 15.30%

The North Sound Regional Support Network actual contributions to the plan were \$102,506 for the year ended December 31, 2015.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
-

NORTH SOUND REGIONAL SUPPORT NETWORK  
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NOTE 7 - PENSION PLANS (continued)

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - PENSION PLANS (continued)**

**Sensitivity of NPL**

The table below presents the North Sound Regional Support Network proportionate share\* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the North Sound Regional Support Network proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1	\$ 909,828	\$ 747,291	\$ 607,523
PERS 2/3	\$ 1,928,351	\$ 659,479	\$ (312,049)

**Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the North Sound Regional Support Network reported a total pension liability of \$1,406,770 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 747,291
PERS 2/3	\$ 659,479

At June 30, the North Sound Regional Support Network proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/14</b>	<b>Proportionate Share 6/30/15</b>	<b>Change in Proportion</b>
PERS 1	% .013474	% .014286	% .000812
PERS 2/3	% .017348	% .018457	% .001109

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2015, the North Sound Regional Support Network recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$90,201
PERS 2/3	88,523
TOTAL	\$178,724

NORTH SOUND REGIONAL SUPPORT NETWORK  
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**NOTE 7 - PENSION PLANS (continued)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2015, the North Sound Regional Support Network reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 40,885
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 45,752	\$
<b>TOTAL</b>	<b>\$ 45,752</b>	<b>\$ 40,885</b>

<b>PERS 2 &amp; 3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 70,103	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 176,050
Changes of assumptions	\$ 1,062	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 35,684	\$
Contributions subsequent to the measurement date	\$ 59,436	\$
<b>TOTAL</b>	<b>\$ 166,285</b>	<b>\$ 176,050</b>

Deferred outflows of resources related to pensions resulting from the North Sound Regional Support Network contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
2016	\$ (15,846)	\$ (37,303)
2017	\$ (15,846)	\$ (37,303)
2018	\$ (15,846)	\$ (37,303)
2019	\$ 6,652	\$ 42,710
2020	\$	\$
Thereafter	\$	\$

**Required Supplementary Information (RSI) - all cost-sharing employers**

Under GASB Statement 68, local governments that participate in one or more of the State's cost-sharing, multiple employer pension plans (PERS, SERS, PSERS, TRS, and LEOFF) must present as RSI:

- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Employer Contributions

These are 10-year schedules. Until a full 10-year trend is compiled, local governments should present information only for those years for which information is available.

**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.

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
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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, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$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 a 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 a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is 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, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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.

There have been no settlements exceeding insurance coverage for the past three fiscal years.

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.



NORTH SOUND REGIONAL SUPPORT NETWORK  
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NOTE 10 - FUND EQUITIES (continued)

Restricted fund balances have external strings attached to the funds such as contracts, agreements or 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.

A. Restricted Fund Balance

The General Fund has a total of \$20,579,270 in restricted fund balance at December 31, 2015. 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, 2015	\$7,966,875
Increases in Restricted fund balance	1,268,880
Decreases in Restricted fund balance	
Medicaid Risk and Inpatient Restricted of Fund Balance at December 31, 2015	\$9,235,755

State Funds Inpatient Restricted of Fund Balance at January 1, 2015	\$868,385
Increases in Restricted fund balance	
Decreases in Restricted fund balance	74,369
State Funds Inpatient Restricted of Fund Balance at December 31, 2015	\$794,016

Medicaid Contracts Fund Balance at January 1, 2015	\$2,362,318
Increases in Restricted fund balance	5,106,075
Decreases in Restricted fund balance	
Medicaid Contracts Fund Balance at December 31, 2015	\$7,468,393

State Funds Contracts Fund Balance at January 1, 2015	\$283,727
Increases in Restricted fund balance	2,797,379
Decreases in Restricted fund balance	
State Funds Contracts Fund Balance at December 31, 2015	\$3,081,106

B. Committed Fund Balance

The General Fund has a total of \$31,327,096 in committed fund balance at December 31, 2015. 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 Committed Fund Balance at January 1, 2015	\$21,213,650
Increases in Committed fund balance	4,960,552
Decreases in Committed fund balance	
Medicaid Committed Fund Balance at December 31, 2015	\$26,174,202

State Committed Fund Balance at January 1, 2015	\$10,259,672
Increases in Committed fund balance	
Decreases in Committed fund balance	5,106,778
State Committed Fund Balance at December 31, 2015	\$5,152,894



NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 10 - FUND EQUITIES (continued)

C. Unassigned Fund Balance

The General Fund has unassigned fund balance of \$5,524,176 at December 31, 2015.

Unassigned Fund Balance at January 1, 2015	\$4,678,626
Increases in Unassigned Fund Balance	845,550
Decreases in Unassigned Fund Balance	
Unassigned Fund Balance at December 31, 2015	\$5,524,176

Note 11 Subsequent Events

The North Sound Regional Support Network RSN changes their entity status February 2016. We did a business conversion to a limited liability corporation and changed the name to North Sound Behavioral Health Organization.

On April 1, 2016 the North Sound BHO will start administering public Substance Use Disorder contracts along with the public Mental Health contracts for our five county region.

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

North Sound Regional Support Network  
Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of December 31, 2015

Last 10 Fiscal Years\*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.014286%								
Employer's proportionate share of the net pension liability	\$	747,291								
TOTAL	\$									
Employer's covered employee payroll	\$	2,030,878								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	36.80%								
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%								

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

North Sound Regional Support Network  
Schedule of Employer Contributions  
PERS 1  
As of December 31, 2015  
Last 10 Fiscal Years\*

	2015	2016	2019	2020	2021	2022	2023	2024	2025	2026
Statutorily or contractually required contributions	\$ 80,003									
Contributions in relation to the statutorily or contractually required contributions	\$ (80,003)									
Contribution deficiency (excess)	\$ 0									
Covered employer payroll	\$ 2,030,878									
Contributions as a percentage of covered employee payroll	% 3.94%									

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

North Sound Regional Support Network  
Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of December 31, 2015

Last 10 Fiscal Years\*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.018457%								
Employer's proportionate share of the net pension liability	\$	659,479								
TOTAL	\$									
Employer's covered employee payroll	\$	2,030,878								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	32.47%								
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%								

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

North Sound Regional Support Network  
Schedule of Employer Contributions

PERS 2/3

As of December 31, 2015

Last 10 Fiscal Years\*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 102,506									
Contributions in relation to the statutorily or contractually required contributions	\$ (102,506)									
Contribution deficiency (excess)	\$ 0									
Covered employer payroll	\$ 2,030,878									
Contributions as a percentage of covered employee payroll	% 5.05%									

1		2		3	4	5		6
Federal Agency Name/Pass-Through Agency Name		Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	Expenditures From Direct Awards	Total	Passed through to Subrecipients
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		16,213		16,213	16,213
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		2,608		2,608	2,608
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	1469-22422		32,156		32,156	32,156
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	1469-22431		82,382		82,382	82,382
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	1569-50522		13,841		13,841	13,841
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	1569-50524		42,369		42,369	42,369
	Total CFDA Number 93.150				189,569		189,569	189,569
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		543,731		543,731	543,731
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	1569-43766		484,688		484,688	484,688
	Total CFDA Number 93.958				1,028,419		1,028,419	1,028,419
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Mental Health Disaster Assistance and Emergency Mental Health	93.982	1469-18465		2,050		2,050	2,050
TOTAL FEDERAL AWARDS EXPENDED					1,220,038	-	1,220,038	1,220,038

NORTH SOUND REGIONAL SUPPORT NETWORK  
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2015

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards and the State Schedule of Financial Assistance are 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.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>