



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

North Sound Behavioral Health Organization

Skagit County

For the period January 1, 2016 through December 31, 2016

Published September 29, 2017

Report No. 1020009





Office of the Washington State Auditor
Pat McCarthy

September 29, 2017

Board of Directors
North Sound Behavioral Health Organization
Mount Vernon, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**North Sound Behavioral Health Organization
Skagit County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the North Sound Behavioral Health Organization 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 Organization.

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 Organization'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>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Organization 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 Behavioral Health Organization Skagit County January 1, 2016 through December 31, 2016

Board of Directors
North Sound Behavioral Health Organization
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 Behavioral Health Organization, Skagit County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated September 28, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 Organization's financial statements are free from material misstatement, we performed tests of the Organization'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 Organization'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 Organization'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.



Pat McCarthy

State Auditor

Olympia, WA

September 28, 2017

**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 Behavioral Health Organization
Skagit County
January 1, 2016 through December 31, 2016**

Board of Directors
North Sound Behavioral Health Organization
Mount Vernon, Washington

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

We have audited the compliance of the North Sound Behavioral Health Organization, 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 Organization's major federal programs for the year ended December 31, 2016. The Organization'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 Organization'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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Organization 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 Organization'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 Organization's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 28, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Sound Behavioral Health Organization Skagit County January 1, 2016 through December 31, 2016

Board of Directors
North Sound Behavioral Health Organization
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 Behavioral Health Organization, Skagit County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed on page 14.

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 Organization'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 Organization'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 Behavioral Health Organization, as of December 31, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information


Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 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 Organization'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 28, 2017 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 28, 2017

FINANCIAL SECTION

**North Sound Behavioral Health Organization
Skagit County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2016

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual General Fund - 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2016

Schedule of Employer Contributions – PERS 1 – 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2016

Schedule of Employer Contributions – PERS 2/3 – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

North Sound Behavioral Health Organization

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Sound Behavioral Health Organization (NSBHO) 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, 2016. 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). We are a joint venture between five counties and we have eight Native American tribes in our region.

The North Sound Regional Support Network did a business conversion in 2016 to become the North Sound Behavioral Health Organization LLC. We changed our name and business structure because we added the public substance use disorder business for our five-county region. The state government 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, North Sound BHO took over the responsibility to fund both outpatient and residential substance use disorder treatment services with our state managed care contract.

FINANCIAL HIGHLIGHTS

Total expenditures are \$49,082,137 higher in 2016 compared to 2015 on the statement of revenues and expenditures. Total revenues are \$35,570,133 higher than the prior year on the same statements. Ending fund balance decreased to \$53,409,171 in 2016 from \$57,430,542 in 2015. The Executive Committee 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.

Due to changes in state policies two facilities currently used by the North Sound BHO in Sedro Woolley will lose their lease in June 2018, and no longer be able to be used for behavioral health needs in the future. Those facilities are the North Sound E&T and Pioneer Human Services north residential facility will need to be replaced within the region. The North Sound BHO is working on replacing those facilities by providing funding to providers and counties to help fund additional facility capacity. In 2016, the North Sound's Executive Committee delivered \$8.5 million in capital funding to three counties in our region to help build new facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to North Sound BHO'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 the North Sounds 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 North Sounds activities are considered governmental activities and are dedicated to providing behavioral health services to the community. The statement of net position presents information on all of North Sounds 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 North Sounds net position changed during 2016. 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 2016, 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 2016.

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. North Sound BHO, like other state and local governments, is required to use fund accounting. Because North Sound BHO 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

North Sound BHO 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 North Sound BHO's financial data for its General Fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available. Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the 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.

The North Sound BHO maintains budgetary controls over its operating funds. As stated above, North Sound BHO 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

North Sound BHO has no proprietary funds.

Fiduciary Funds

North Sound BHO 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. North Sound BHO's Net Position total was \$56,274,830 at December 31, 2015 compared to \$52,344,620 at December 31, 2016. Please note the unrestricted net position has gone from \$34,961,204 to \$24,970,962.

Table 1: Summary of Net Position 2016 versus 2015		
As of December 31, 2016		
	2015	2016
Current Assets	\$65,250,912	\$68,667,756
Capital Assets	734,356	725,596
Total Assets	\$65,985,268	\$69,393,352
Deferred outflow of Resources	\$212,037	\$555,274
Total Deferred outflow of Resources	\$212,037	\$555,274
Current Liabilities	\$7,801,972	\$15,121,408
Non-Current Liabilities	1,843,796	2,307,711
Total Liabilities	\$9,645,768	\$17,429,119
Deferred Inflow of Resources	\$276,707	\$174,887
Total Deferred Inflow of Resources	\$276,707	\$174,887
Net Position:		
Investment in Capital Assets	\$734,356	\$725,596
Restricted for Medicaid	16,704,148	21,545,800
Restricted for State Funds	3,875,122	5,102,262
Unrestricted	34,961,204	24,970,962
Total Net Position	\$56,274,830	\$52,344,620

North Sound BHO's total assets are \$69,393,352 at December 31, 2016. The majority of North Sound BHO assets were accounted for in cash, cash equivalents, and investments. At December 31, 2016, the North Sound BHO had outstanding liabilities of \$17.4 million, a majority of which is due within a year. Included in liabilities in the table is \$8,184,377 in accounts payable, \$6,937,031 due to governmental units.

A change in accounting principles for the reporting of pensions also impacted the Statement of Net Position of the North Sound. These reporting changes resulted in Deferred Outflow of resources of \$555,274. An additional net pension liability in the amount of \$2,094,293 was created as well as \$174,887 in deferred inflows from pensions.

The deferred outflow of resources increased to \$555,274 in 2016 from \$212,037 in 2015 due to the pension adjustment. The Deferred inflows of resources went down from \$276,707 in 2015 to \$174,887 in 2016; \$37,710 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 governmental payments are not sufficient. The balance of unrestricted net position at December 31, 2016 is \$24,970,962.

Statement of Activities

Refer to Table 2 when reading the following analysis of the Statement of Activities. North Sound BHO's total net position decreased by (\$3,930,210) in 2016 compared to an increase of \$10,151,031 in 2015. Governmental revenue increased in 2016 by \$35,559,538 and expenses increased by \$49,651,374 compared to 2015.

Table 2: Summary of Statement of Activities		
For the Year Ended December 31, 2016		
	2015	2016
Governmental Activities		
Governmental Revenues	\$111,263,076	\$146,822,614
Governmental Expenditures	101,441,778	151,093,152
Net Governmental Activities	\$9,821,298	(\$4,270,538)
General Revenues		
Investment Earnings	\$310,318	\$313,883
Miscellaneous Revenue	19,415	26,445
Total General Revenue	\$329,733	\$340,328
Change in Net Position	\$10,151,031	(\$3,930,210)
Prior Period Adjustment	(\$1,415,452)	0
Net Position - Beginning	\$47,539,251	\$56,274,830
Net Position - Ending	\$56,274,830	\$52,344,620

FINANCIAL ANALYSIS OF THE NORTH SOUND BHO FUNDS

As noted earlier, North Sound BHO uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. North Sound BHO 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 North Sound's General Fund assets and liabilities as of December 31, 2016.

North Sound BHO General Fund

The focus of North Sound BHO'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, 2016, North Sound's general fund reported a fund balance of \$53,409,171 compared to the prior year of \$57,430,542. There is an unassigned fund balance of \$373,743 in 2016 compared to the unassigned fund balance of \$5,524,176 in 2015. A Medicaid risk and inpatient reserve fund balance of \$12,350,793 is not available for spending because it is a contractually required reserve. The state funds inpatient reserves are \$796,326 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 reserve.

The general fund is in good condition at the end of 2016. The balance sheet showed an unassigned fund balance of \$373,743 at the end of 2016 compared to a \$5,524,176 unassigned fund balance at the end of 2015. This change is mainly due to increased Medicaid funding and the Executive Committee 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 BHO was \$126,819,735 for revenue and expense. The final budget was \$152,819,735 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 population. The 2016 Medicaid revenue was budgeted at \$102,044,641. We increased the Medicaid revenue budget by \$16,000,000 and use of beginning fund balance in November 2016. We also increased our operating expense budget by \$26,000,000 from \$126,819,735 to \$152,819,735. Actual expenditures during 2016 were \$151,184,313.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

North Sound has computers and lease hold improvements recorded as capital assets. We added lease hold improvements and equipment to our office in the amount of \$126,663 during 2016. The total net book value at December 31, 2016 is \$725,596.

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

Long-Term Debt

North Sound paid off long term debt during 2016 in the amount of \$293,239. This debt was for the lease hold improvements for the office. We also have some leases and vacation, sick leave payouts. Please refer to the notes to the financial statements.

ECONOMIC FACTORS

North Sound BHO 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 took over the public substance use disorder system in 2016. We secured the current system and are working on expanding substance use disorder services through the region. The North Sound's BHO's Executive Committee set aside funds for the expansion of that system. We continue to struggle to keep up with the demand for services in some parts of our region. We have the funding to expand services but do not have a sufficiently trained local labor pool to provide all the services. Our region struggles in dealing with the growing opiate epidemic. We have adopted a regional plan to reduce the impact of opiates and expand treatment services to people in our community.

Requests for Information

This financial report is designed to provide a general overview of North Sound BHO'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 Behavioral Health Organization
301 Valley Mall Way, Suite 110
Mount Vernon, WA 98273
360-416-7013
Visit our website at <http://www.northsoundbho.org/>

Basic Financial Statements

Basic Financial Statements

The basic financial statements and note disclosures comprise the minimum acceptable fair presentation in conformity with Generally Accepted Accounting Principles (GAAP). Basic financial statements are designed to be “liftable” from the Financial Section of the Annual Financial Report for widespread distribution to users requiring less detailed information than is contained in the full Annual Report. Basic Financial Statements include:

Government-wide Financial Statements

(1) Government-wide Statement of Net Position – presents information on all North Sound governmental and business-type assets and liabilities, with the difference reported as net position.

(2) Government-wide Statement of Activities – presents information on all North Sound governmental and business-type revenues and expenses, with the difference reported as change in net position.

Fund Financial Statements

(3) Balance Sheet – Governmental Funds – presents the balance sheets for major funds and aggregated amounts for all other governmental funds.

(4) Reconciliation of the Balance Sheet to the Government-wide Statement of Net Position.

(5) Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds - presents information for each major fund and aggregated information for all other governmental funds.

(6) Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities.

(7) Statement of Revenues, Expenditures and Changes in Fund Balance – Budget

(GAAP Basis) and Actual – presents budget information, along with actual results, on separate statements for each major fund which has a legally adopted budget.

(8) Notes to Financial Statements – presents disclosure and further detail information to assist the reader in a better understanding of the financial statements and the data presented with them.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION**Statement of Net Position****December 31, 2016**

	Governmental Activities General Fund
<u>ASSETS</u>	
Current Assets	
Cash	\$ 986,392
Cash Equivalents	33,683,614
Investments	23,135,342
Deposits	17,000
Miscellaneous receivables	4,571,378
Accrued Interest	24,098
Due From Other Gov't Units	6,249,932
TOTAL CURRENT ASSETS	\$ 68,667,756
Non-current Assets	
Capital Assets Not being Depreciated	126,663
Capital Assets being Depreciated	848,156
Less: Accumulated Depreciation	249,223
Net Assets Being Depreciated	598,933
TOTAL LONG TERM ASSETS	\$ 725,596
TOTAL ASSETS	\$ 69,393,352
<u>Deferred outflow of Resources</u>	
Revenue Outflows	555,274
TOTAL DEFERRED OUTFLOW OF RESOURCES	\$ 555,274
<u>LIABILITIES</u>	
Current Liabilities	
Accounts/Vouchers Payable	\$ 8,184,377
Due To Other Gov't Units	6,937,031
Current Portion of long term Debt	-
TOTAL CURRENT LIABILITIES	\$ 15,121,408
Non-current Liabilities	
Compensated Absences	213,418
Notes Payable	-
Net Pension Liability	2,094,293
Total Non-current Liabilities	2,307,711
TOTAL LIABILITIES	\$ 17,429,119
<u>Deferred inflow of Resources</u>	
Deferred inflows	174,887
TOTAL DEFERRED INFLOW OF RESOURCES	\$ 174,887
Net Position	
Net Investment in Capital Assets	\$ 725,596
Restricted for Medicaid	21,545,800
Restricted for State Funds	5,102,262
Unrestricted	24,970,962
TOTAL Net Position	\$ 52,344,620

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

NORTH SOUND BHAVIORAL HEALTH ORGANIZATION

Statement Of Activities For The Year Ended December 31, 2016

	Expenses	Program Revenue			Net (expense) Revenue & Changes in Net Position		
		Grants & Fees			Primary Government		
		Charges for service	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activity	Business Type Activities	Total
<u>Governmental Activities:</u>							
Mental & Physical Health	\$ 151,093,152	142,715,111	\$ 4,107,503		(4,270,538)	-	(4,270,538)
Total Governmental Activities	\$ 151,093,152	142,715,111	\$ 4,107,503	-	\$ (4,270,538)	-	\$ (4,270,538)
<u>Business-Type Activities:</u>							
Total Business-Type Activities:	-	-	-	-	-	-	-
Total Primary Government	\$ 151,093,152	142,715,111	\$ 4,107,503	-	\$ (4,270,538)	-	\$ (4,270,538)
<u>General Revenues</u>							
Investment Earnings					\$ 313,883	\$ 313,883	
Miscellaneous					26,445	26,445	
<u>Transfers</u>					-	-	-
Total General Revenue & Transfers					\$ 340,328	-	\$ 340,328
Change in Net Position					\$ (3,930,210)	-	\$ (3,930,210)
Net Position-Beginning							56,274,830
Net Position-Ending							\$ 52,344,620

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

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION

Balance Sheet Governmental

December 31, 2016

	General Fund	Total
<hr/>		
<u>ASSETS</u>		
Assets		
Cash	\$ 986,392	986,392
Cash Equivalents	33,683,614	33,683,614
Investments	23,135,342	23,135,342
Deposits	17,000	17,000
Accrued Interest	24,098	24,098
Miscellaneous Receivable	4,571,378	4,571,378
Due From Other Gov't Units	6,249,932	6,249,932
TOTAL CURRENT ASSETS	\$ 68,667,756	\$ 68,667,756
<hr/>		
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities		
Accounts/Vouchers Payable	\$ 8,184,377	\$ 8,184,377
Due To Other Gov't Units	6,937,031	6,937,031
TOTAL CURRENT LIABILITIES	\$ 15,121,408	\$ 15,121,408
<hr/>		
<u>Deferred Inflow of Resources</u>		
Intergovernmental Revenue Received But Not Earned	137,177	137,177
	\$ 137,177	\$ 137,177
<hr/>		
<u>Fund Balance</u>		
Restricted Fund Balance - Risk & Inpatient Medicaid	\$ 12,350,793	\$ 12,350,793
Restricted Fund Balance - Inpatient State	796,326	796,326
Restricted Fund Balance - Contracts Medicaid	9,195,007	9,195,007
Restricted Fund Balance - Contracts State	4,346,937	4,346,937
Committed Fund Balance - Medicaid	26,346,365	26,346,365
Committed Fund Balance - State	-	-
Unassigned Fund Balance	373,743	373,743
TOTAL FUND BALANCE	\$ 53,409,171	\$ 53,409,171
<hr/>		
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 68,667,756	\$ 68,667,756
<hr/>		

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

North Sound Behavioral Health Organization

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position for the Year Ended December 31, 2016

Total fund balance as shown on the Governmental Statement Balance Sheet is \$53,409,171 compared to \$52,344,620 shown on the Statement of Net Position. This is a difference of \$1,064,551.

The reconciling item is compensated absences in the amount of \$213,418. 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 is \$555,274 along with the deferred inflows and the net pension liability in the amounts of \$37,710 and \$2,094,293.

The capital assets net of accumulated depreciation in the amount of \$725,596 is shown on the Statement of Net Position and not on the Balance Sheet.

The difference between the statements is $\$1,064,551 = 213,418 - 555,274 + 2,094,293 + 37,710 - 725,596$.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION

Statement of Revenue, Expenditures and Changes In Fund Balance Governmental Year Ended December 31, 2016

	General Fund 2016
<u>REVENUES</u>	
<u>Intergovernmental Revenue</u>	
Indirect Federal Grants	\$ 4,107,503
<u>Charges for Service</u>	
Charges for Service	142,314,244
Local Funds	400,867
<u>Miscellaneous Revenues</u>	
Investment Interest	313,883
Miscellaneous Revenues	26,445
TOTAL REVENUE	<u>\$ 147,162,942</u>
<u>EXPENDITURES</u>	
<u>Current:</u>	
Behavioral Health	\$ 141,345,910
<u>Capital Outlay</u>	
Behavioral Health	9,538,652
<u>Debt Service</u>	
Principal	293,239
Interest	6,512
TOTAL EXPENDITURES	<u>\$ 151,184,313</u>
Excess of Revenues Over (Under) Expenditures	\$ (4,021,371)
<u>Other Financing Sources</u>	
Proceeds from long Term Note	-
Net Change in Fund Balance	\$ (4,021,371)
Fund Balance - Beginning 1/1/16	57,430,542
Fund Balance - Ending 12/31/16	<u>\$ 53,409,171</u>

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

North Sound Behavioral Health Organization

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, 2016

The net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance is (\$4,021,371). The change in net position on the Statement of Activities equals (\$3,930,210). This represents a difference of (\$91,161).

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 2016 is \$171,223. Capitalized Assets purchased during 2016 are \$162,463.

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 2016 are \$293,239.

Another difference in reporting is the change in compensated absences from \$185,161 at December 31, 2015 to \$213,418 at December 31, 2016. The difference is \$28,257. 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 \$165,062.

One dollar rounding.

The total difference between the statements is $(\$91,161) = \$171,223 - 162,463 - 293,239 + 28,257 + 165,062 - 1$.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

General Fund

Year Ended December 31, 2016

<u>REVENUES</u>	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<u>Intergovernmental Revenue</u>				
Indirect Federal Grants	4,480,628	4,480,628	4,107,503	(373,125)
State Grants	-	-	-	-
Charges for Service	122,219,107	138,219,107	142,314,244	4,095,137
Local Funds	-	-	400,867	400,867
<u>Miscellaneous Revenues</u>				
Investment Interest	100,000	100,000	313,883	213,883
Miscellaneous Revenues	20,000	20,000	26,445	6,445
TOTAL REVENUE	\$ 126,819,735	\$ 142,819,735	\$ 147,162,942	\$ 4,343,207
<u>EXPENDITURES</u>				
Behavioral Health	\$ 126,743,084	\$ 142,949,084	\$ 141,345,910	\$ 1,603,174
Capital Outlays	0	9,567,000	9,538,652	28,348
Debt Service	76,651	303,651	299,751	3,900
TOTAL EXPENDITURES	\$ 126,819,735	\$ 152,819,735	\$ 151,184,313	\$ 1,635,422
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (10,000,000)	\$ (4,021,371)	\$ 5,978,629
<u>Other Financing Sources</u>				
Proceeds from Long Term Note			\$ -	\$ -
Net Change in Fund Balance	\$ -	\$ (10,000,000)	\$ (4,021,371)	\$ 5,978,629
Fund Balance - Beginning 1/1/16			\$ 57,430,542	\$ 57,430,542
Fund Balance Ending - 12/31/16	\$ -	\$ (10,000,000)	\$ 53,409,171	\$ 63,409,171

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Sound Behavioral Health Organization 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 Behavioral Health Organization is a governmental agency providing a variety of mental health and substance use disorder services to a five-county region. During 2016, the North Sound Regional Support Network changed their entity status and name to the North Sound Behavioral Health Organization 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 started administering the public substance use disorder contracts along with the public Mental Health contracts for our five-county region.

The North Sound BHO 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 Behavioral Health Organization only has one fund, the general 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.

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

See Note 1 D 8 Compensated Absences.

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, 2016, \$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 \$ 5,656 at December 31, 2016. Cash on hand at the County Treasurer's office is \$ 978,736. In addition to cash at the bank and Treasurers office we have \$33,683,614 classified on the balance sheet as cash equivalents at December 31, 2016. 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. These amounts are classified on the Balance Sheet or in the statement of Net Position as cash equivalents.

In accordance with GASB 79, qualifying short-term investments in general 2a7-like pools, money market investment and other investment with a remaining maturity of one year or less at the time of purchase are amortized at cost. All other investments are stated at fair value. For additional investment information see note 4 A.

2. Temporary Investments – See Note 4 B.

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 BHO.

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.

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

7. Deferred Outflows of Resources

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. This is the portion of the state's pension funding system that relates to the BHO.

8. Compensated Absences

It is the North Sound's policy to permit employees to accumulate earned but unused vacation leave benefits. All vacation pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The non-current portion for governmental funds is not reported in the governmental fund statements and represents a reconciling item between the fund and government-wide presentations.

Employees receive vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement or death. Sick leave may accumulate up to a maximum of 120 days. An employee leaving the North Sound Behavioral Health Organization is entitled to be paid for unused vacation and 25% of sick leave after completion of five years of service. Employee benefit payout for 2016 was \$213,418 including estimated benefits.

9. Long-Term Debt - See Note 5

10. 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, committed, 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 North Sound Executive 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.

11. 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.

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 \$53,409,171 compared to \$52,344,620 shown on the Statement of Net Position. This is a difference of \$1,064,551.

The reconciling item is compensated absences in the amount of \$213,418. This is not shown on the Balance Sheet of the Governmental Funds but is part of the Statement of Net Position.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

The deferred outflows of revenue related to the pension are \$555,274 along with the deferred inflows and the net pension liability in the amounts of \$37,710 and \$2,094,293.

The capital assets net of accumulated depreciation in the amount of \$725,596 are shown on the Statement of Net Position and not on the Balance Sheet.

The difference between the statements is $\$1,064,551 = 213,418 - 555,274 + 2,094,293 + 37,710 - 725,596$.

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 (\$4,021,371). The change in net position on the Statement of Activities equals (\$3,930,210). This represents a difference of (\$91,161).

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 2016 is \$171,223. Capitalized Assets purchased during 2016 are \$162,463.

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 2016 are \$293,239.

Another difference in reporting is the change in compensated absences from \$185,161 at December 31, 2015 to \$213,418 at December 31, 2016. The difference is \$28,257. 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 \$165,062. One dollar rounding.

The total difference between the statements is $(\$91,161) = \$171,223 - 162,463 - 293,239 + 28,257 + 165,062 - 1$.

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 Executive Committee and public. After public meetings and Advisory Board approval a recommended budget is brought to the Board of Directors for approval. The Board of Directors approves the recommended budget on or before December 31st of each year and it becomes the adopted budget.

3. Amending the Budget

The Executive Director is authorized to approve budget transfers between appropriation units (sub-object of expenditure). However, the following circumstances require Executive Committee 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 2016.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

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

The North Sound Behavioral Health Organization 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, 2016 the North Sound Behavioral Health Organization held the following deposits and short-term investments operating within the parameters outlined in GASB 79, and qualifying to be reported at amortized cost: money market accounts \$23,718,219 and state investment pool \$23,718,219, petty cash \$7,656. The deposit shown on the balance sheet in the amount of \$17,000 is a damage deposit required for the office-building lease.

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 Behavioral Health Organization would not be able to recover the value of the investment or collateral securities. North Sound Behavioral Health Organization has no custodial credit risk as of December 31, 2016.

The North Sound Behavioral Health Organization does not hold investments for other local governments, individuals or private organizations. Statutes authorize the County, acting as an agent of the North Sound Behavioral Health Organization, to invest in obligations of the U.S. Treasury and its instrumentalities, banker's 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.

B. Investments Measured at Fair Value

The North Sound Behavioral Health Organization measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the North Sound Behavioral Health Organization had the following investments measured at fair value:

			Fair Value Measurement Using Quoted Prices		
Investments by Fair Value		12/31/2016	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Treasurer Note	\$	2,598,373		\$ 2,598,373	
General Obligation Fund		9,996,969		9,996,969	
FICO Bond		8,000,000		8,000,000	
Freddie Mac		2,000,000		2,000,000	
Total Investments by Fair Value	\$	22,595,342		\$ 22,595,342	

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4 – DETAILED NOTES ON THE GENERAL FUND

C. Receivables

Accrued interest receivable consists of amounts earned on investments at the end of the year. At the end of 2016 the accrued interest receivable is \$24,098.

Accounts receivable are \$4,571,378. They consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Most of our accounts receivable are from reconciliations of budget payment to actual for start-up organizations when we took over the substance use disorder business.

Due from other governmental units in the amount of \$6,249,932 represent grant funds that were owed but not received by year-end. Most of the amounts owed were from Washington State Department of Social and Health Services some were from other Behavioral Health organizations.

D. 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 North Sound BHO 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 NSBHO has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account group.

2. Capital Assets

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

A summary of changes in capital assets follows:

	Balance 1/1/16	Additions	Deletions	Balance 12/31/16
Capital Assets, not being depreciated:				
Construction in Progress:	\$ 688,237	\$ 126,663	\$ 688,237	\$ 126,663
Total capital assets, not being depreciated:	\$ 688,237	\$ 126,663	\$ 688,237	\$ 126,663
Capital Assets being depreciated:				
Machinery & Equipment	\$ 139,698	\$ 35,800	\$ 15,579	\$ 159,919
Leasehold Improvements	\$ 93,314	\$ 688,237	\$ 93,314	\$ 688,237
Total Assets being depreciated	\$ 233,012	\$ 724,037	\$ 108,893	\$ 848,156
Less accumulated depreciation	\$ 186,893	171,223	\$ 108,893	\$ 249,223
Total capital asset being depreciated, net	\$ 46,119	\$ 552,814	\$ 0	\$ 598,933
Total Capital assets, net	\$ 734,356	\$ 679,477	\$ 688,237	\$ 725,596

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5 – LONG TERM DEBT

The long-term debt the North Sound has are compensated absences (see note 1 D-8) and notes payable. During 2016 we paid off the balance of our notes payable.

Type of Debt	Beginning Balance 1/1/16	New Issue	Retirements	Current Portion	Ending Balance 12/31/16
Compensated Absences	\$ 185,161	\$ 57,032	\$ 28,775		\$ 213,418
Notes Payable	\$ 293,239	\$	\$ 293,239	\$ 0	\$ 0
Total	\$ 478,400	\$ 57,032	\$ 322,014	\$ 0	\$ 213,418

NOTE 6 – LEASES

The North Sound Behavioral Health Organization leases the office building and other equipment under noncancelable operating leases. Total cost for such leases was \$236,706 for the year ended December 31, 2016. The future minimum lease payments for these leases are as follows:

Year ending December 31	Amounts
2017	\$ 242,832
2018	\$ 249,141
2019	\$ 255,640
2020	\$ 262,333
2021	\$ 7,816
2022	\$ 1,954
Total	\$ 1,019,715

NOTE 7 - PENSION PLANS

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 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 2,094,293
Pension assets	\$ 0
Deferred outflows of resources	\$ 555,274
Deferred inflows of resources	\$ (37,710)
Pension expense/expenditures	\$ 451,566

State Sponsored Pension Plans

Substantially all North Sound Behavioral Health Organization's 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:

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

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.

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 2016 were as follows:

NOTE 7 - PENSION PLANS (continued)

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

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

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:

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

- 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 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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

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

The North Sound Behavioral Health Organization's actual PERS plan contributions were \$124,238 to PERS Plan 1 and \$162,266 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

- Inflation: 3.0% 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.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

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, 2016, 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.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

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%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the North Sound Behavioral Health Organization's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the North Sound Behavioral Health Organization's 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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 1,147,980	\$ 951,970	\$ 783,291
PERS 2/3	\$ 2,103,222	\$ 1,142,323	\$ (594,645)

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, 2016, the North Sound Behavioral Health Organization reported a total pension liability of \$2,094,293 for its proportionate share of the net pension liabilities as follows (only report applicable plans):

	Liability (or Asset)
PERS 1	\$ 951,970
PERS 2/3	\$ 1,142,323

At June 30, the North Sound Behavioral Health Organization's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	% .014286	% .017726	% .003440
PERS 2/3	% .018457	% .022688	% .004231

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.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the North Sound Behavioral Health Organization recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 240,350
PERS 2/3	\$ 211,216
TOTAL	\$ 451,566

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the North Sound Behavioral Health Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$ 23,969	\$
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 69,466	\$
TOTAL	\$ 93,435	\$

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,828	\$ (37,710)
Net difference between projected and actual investment earnings on pension plan investments	\$ 139,787	\$
Changes of assumptions	\$ 11,807	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 158,689	\$
Contributions subsequent to the measurement date	\$ 90,728	\$
TOTAL	\$ 461,839	\$ (37,710)

Deferred outflows of resources related to pensions resulting from the North Sound Behavioral Health Organization's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

Year ended December 31:	PERS 1
2017	\$ (5,902)
2018	\$ (5,902)
2019	\$ 22,013
2020	\$ 13,579
2021	\$
Thereafter	\$

Year ended December 31:	PERS 2/3
2017	\$ 53,003
2018	\$ 53,003
2019	\$ 152,801
2020	\$ 74,595
2021	\$
Thereafter	\$

Deferred Compensation

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

NOTE 8 - RISK MANAGEMENT

North Sound Behavioral Health Organization 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, 2016, there are 524 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, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 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.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8 - RISK MANAGEMENT (continued)

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 Behavioral Health Organization has recorded in its financial statements all material liabilities. In the opinion of management, the North Sound Behavioral Health Organization'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 Behavioral Health Organization management believes that such disallowances, if any, will be immaterial.

NOTE 10 - FUND EQUITIES

GASB 54 requires breaking down fund balance reporting by classifying amounts by the types of restrictions placed upon them. The fund balances are classified by the following restrictions; non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. The North Sound has restricted, assigned and unassigned fund balance.

Restricted fund balances have external strings attached to the funds such as contracts, agreements or legislation. These external strings have specific purposes attached to the funds limiting their use.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Assigned fund balances are amounts that are constrained by government's intent to be used for a specific purpose.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

A. Restricted Fund Balance

The General Fund has a total of \$26,689,063 in restricted fund balance at December 31, 2016. This is the amount set aside to satisfy the contractual reserve portion of the NSBHO contract with the State Department of Social and Health Services and contracts with agencies.

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 10 - FUND EQUITIES (continued)

Medicaid Risk and Inpatient Restricted of Fund Balance at January 1, 2016	\$9,235,755
Increases in Restricted fund balance	
Decreases in Restricted fund balance	3,115,038
Medicaid Risk and Inpatient Restricted of Fund Balance at December 31, 2016	\$12,350,793
State Funds Inpatient Restricted of Fund Balance at January 1, 2016	\$794,016
Increases in Restricted fund balance	2,310
Decreases in Restricted fund balance	
State Funds Inpatient Restricted of Fund Balance at December 31, 2016	\$796,326

Medicaid Contracts Fund Balance at January 1, 2016	\$7,468,393
Increases in Restricted fund balance	1,726,614
Decreases in Restricted fund balance	
Medicaid Contracts Fund Balance at December 31, 2016	\$9,195,007
State Funds Contracts Fund Balance at January 1, 2016	\$3,081,106
Increases in Restricted fund balance	1,265,831
Decreases in Restricted fund balance	
State Funds Contracts Fund Balance at December 31, 2016	\$4,346,937

B. Committed Fund Balance

The General Fund has a total of \$26,346,365 in committed fund balance at December 31, 2016. This is the amount set aside by the North Sound BHO Executive Committee for implementation of the children's mental health care redesign, expansion of our provider network.

Medicaid Committed Fund Balance at January 1, 2016	\$26,174,202
Increases in Committed fund balance	172,163
Decreases in Committed fund balance	
Medicaid Committed Fund Balance at December 31, 2016	\$26,346,365
State Committed Fund Balance at January 1, 2016	\$5,152,894
Increases in Committed fund balance	
Decreases in Committed fund balance	\$5,152,894
State Committed Fund Balance at December 31, 2016	\$0

C. Unassigned Fund Balance

The General Fund has unassigned fund balance of \$373,743 at December 31, 2016.

Unassigned Fund Balance at January 1, 2016	\$5,524,176
Increases in Unassigned Fund Balance	
Decreases in Unassigned Fund Balance	5,150,433
Unassigned Fund Balance at December 31, 2016	\$373,743

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

North Sound Behavioral Health Organization
Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2016
Last 10 Fiscal Years

	2015	2016	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) %	0.014286%	0.017726%						
Employer's proportionate share of the net pension liability \$	747,291	951,970						
Covered payroll \$	1,637,624	2,134,043						
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	45.63%	44.61%						
Plan fiduciary net position as a percentage of the total pension liability %	59.10%	57.03%						

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

North Sound Behavioral Health Organization
Schedule of Employer Contributions

PERS 1

For the year ended December 31, 2016

Last 10 Fiscal Years

	2015	2016	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statutorily or contractually required contributions	\$ 80,003	124,238							
Contributions in relation to the statutorily or contractually required contributions	\$ (80,003)	(124,238)							
Contribution deficiency (excess)	\$ 0	0							
Covered payroll	\$ 1,842,035	2,604,581							
Contributions as a percentage of covered payroll	% 4.34%	4.77%							

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

North Sound Behavioral Health Organization
Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2016
Last 10 Fiscal Years

	2015	2016	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) %	0.018457%	0.022688%						
Employer's proportionate share of the net pension liability \$	659,479	1,142,323						
Covered payroll \$	1,637,624	2,134,043						
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	40.27%	53.53%						
Plan fiduciary net position as a percentage of the total pension liability %	89.20%	85.82%						

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

North Sound Behavioral Health Organization
Schedule of Employer Contributions

PERS 2/3

For the year ended December 31, 2016

Last 10 Fiscal Years

	2015	2016	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statutorily or contractually required contributions	\$ 102,506	162,266							
Contributions in relation to the statutorily or contractually required contributions	\$ (102,506)	(162,266)							
Contribution deficiency (excess)	\$ 0	0							
Covered payroll	\$ 1,842,035	2,604,581							
Contributions as a percentage of covered payroll	% 5.56%	6.23%							

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended December 31, 2016

1 Federal Agency Name/Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 Expenditures		Passed through to Subrecipients	6 Foot-note Ref.
				From Pass-Through Awards	From Direct Awards		
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Project for Assistance in Transition from Homelessness (PATH)	93.150	1569-50522	24,125		24,125	
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	53,735		53,735	
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	1669-60582	37,829		37,829	
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	1669-60585	95,893		95,893	
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	1669-75294	20,246		20,246	
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	1669-75295	34,420		34,420	
	Total CFDA Number 93.150			266,248		266,248	
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	255,467		255,467	
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	1669-57888	603,685		603,685	
	Total CFDA Number 93.958			859,152		859,152	
U.S. Department of Health and Human Services/Pass-Through from WA State Dept. of Social and Health Services	Substance Abuse Prevention and Treatment Block Grant	93.959	1669-58051	2,982,102		2,982,102	
TOTAL FEDERAL AWARDS EXPENDED				4,107,502	-	4,107,502	
						1,237,410	

NORTH SOUND BEHAVIORAL HEALTH ORGANIZATION
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2016

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the North Sound Behavioral Organization's financial statements. The North Sound Behavioral Organization uses the modified accrual basis of accounting for government 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 Sound Behavioral Organization's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – INDIRECT COST RATE

The North Sound Behavioral Health Organization has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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