SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

FINANCIAL STATEMENTS AND COMPLIANCE REPORTS

As of and for the Year Ended June 30, 2022

And Report of Independent Auditor

Cherry Bekaert LLP

Your Guide Forward

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
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Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

To the Board of Directors
Sandhills Center for Mental Health, Developmental Disabilities,
and Substance Abuse Services
West End, North Carolina

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial statements of the Center as of June 30, 2022, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Center. The supplementary information, as listed in the table of contents, as well as the accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information and the schedule of expenditures of federal and state awards 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Center's 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 Center's internal control over financial reporting and compliance.

Raleigh, North Carolina
October 31, 2022

As management of Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center"), we offer readers of the Center's financial statements this narrative overview and analysis of the financial activities of the Center for the year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Center's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Center exceeded its liabilities and deferred inflows at the close of the year by $199,663,572.
- The Center's total net position increased by $54,391,309.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements. The Center's basic financial statements consist of two components: (1) government-wide financial statements and (2) notes to the basic financial statements.

The prior-period information in this Management's Discussion and Analysis is not consistent with the current-period information as a result of a change in accounting principle, Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases*, as the effect on the prior-period financial statements was not significant to the reader. See Note 1 to the financial statements for additional information.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Center operates similar to a private business and, therefore, utilizes the proprietary fund method of accounting. This method provides both short and long-term financial information and requires that revenue and expenses are recognized on the full accrual basis of accounting.

The Statement of Net Position presents information on all of the Center's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Center's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Statement of Cash Flows presents information reconciling current-year operations and the change in the Statement of Net Position to the net change in cash during the year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Center's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Center exceeded liabilities and deferred inflows by $199,663,572 as of June 30, 2022. The Center's net position increased by $54,391,309 for the year ended June 30, 2022. The Center's investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items is $35,087,583. An additional portion of the Center's net position, $66,757,589, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $97,970,541 is unrestricted.

Table A-1
Condensed Statement of Net Position

	June 30,	
	2022	**2021**
Current and other assets	$ 199,153,111	$ 132,164,119
Capital assets	34,935,442	34,987,865
Total Assets	234,088,553	167,151,984
Deferred outflows of resources	7,479,736	5,542,764
Current liabilities	22,952,903	16,460,382
Long-term liabilities	7,444,822	10,716,957
Total Liabilities	30,397,725	27,177,339
Deferred inflows of resources	11,506,992	245,146
Net Position:		
Investment in capital assets	35,087,583	34,987,865
Restricted	66,757,589	48,737,288
Unrestricted	97,818,400	61,547,110
Total Net Position	$ 199,663,572	$ 145,272,263

Table A-2
Condensed Statement of Changes in Net Position

	Year Ended June 30, 2022	Year Ended June 30, 2021
Revenues:		
Restricted Intergovernmental Revenues:		
Federal	$ 9,133,287	$ 16,524,435
State	46,407,033	42,184,781
Medicaid	417,543,266	347,139,332
Other local	25,898,286	11,853,578
Total Revenues	498,981,872	417,702,126
Expenses:		
Administration	6,016,238	5,331,428
Medicaid administration	53,437,920	40,676,584
Contract services	385,136,405	348,823,327
Total Expenses	444,590,563	394,831,339
Change in net position	54,391,309	22,870,787
Net position, beginning	145,272,263	122,401,476
Net position, ending	$ 199,663,572	$ 145,272,263

The Center's net position increased by $54,391,309 as a result of operations. Key elements of this activity are as follows:

In fiscal year 2021-2022, Medicaid revenue increased by approximately $70M from fiscal year 2021 due to county realignment of Davidson County and Rockingham County from Cardinal Innovation, as well as increased capitation rates noted for Medicaid. Administration and contract expenses increased as the Center expanded integrated healthcare, implemented community expansion projects, and increased rates to enhance the quality of service to its members.

Budgetary Highlights – During the year, the Center revised the budget on several occasions. The final revision of the Center's operating budget amendments includes the following:

1) Recognition of any additional state funding allocations including those from Cardinal realignment.
2) Each cost center was reviewed for actual revenues and expenditures to ensure the Center's expenditures would not exceed appropriations for any cost center.
3) Decrease in fund balance appropriation for Medicaid Services.

Capital Asset and Debt Administration

Capital Assets – The Center's investment in capital assets as of June 30, 2022 totals $35,087,583 (net of accumulated depreciation). These assets include construction in progress, land, buildings, software, equipment, and leased assets.

During the current year, the Center acquired new assets of $9,277,749. These additions include the right-to-use lease assets that resulted from the implementation of GASB 87, *Lease*, construction costs related to the Adult Facility Based Crisis center in Asheboro, North Carolina; construction costs of the Child Facility Based Crisis center in Rockingham, North Carolina; administrative building in Asheboro, North Carolina; facility based crisis center in Guilford, North Carolina; and data processing equipment. $7,798,688 was put in service from these CIP projects. Additional information regarding the office building and Adult Facility Based Crisis center can be found in the supplementary information.

Additional information on the Center's capital assets can be found in the notes to the financial statements.

Long-Term Debt – As of June 30, 2022, the Center had no debt outstanding.

Budget Highlights for the Year Ending June 30, 2023

The Center's fiscal year budget begins on July 1 and ends on June 30. Highlights for the board-approved $694.6 million fiscal year 2022-2023 Continuation Budget include:

1) Adjustments for changes in the Medicaid per member, per month rate beginning July 1, 2022,
2) Removal of all one-time state/federal allocations,
3) Budget allocation of county general funding in the amount of $12 million to support county outpatient units and,
4) Updating the LME's personnel schedule

In addition, the Center had two project ordinances for fiscal year 2022-2023 totaling $6,617,150. The first project ordinance is for construction of a general office building located at 938 New Century Drive, Asheboro, North Carolina. This site will be used for future trainings and monthly board meetings, as well as office space for staff located in leased office space in Asheboro. Asheboro has been found to be a central location for all counties in our catchment area. This project is contracted to be completed by March 1, 2023. The second project ordinance is for the construction of an corporate office building located on Seven Lakes Drive, West End, North Carolina. This project was necessitated by the widening of state highway 211 and Seven Lakes Drive. Much needed parking lot space was sought and purchased by NCDOT for this road expansion. The project included the razing of the office building denoted as Sandhills Center West End building number 2. Current buildings 1 and 4 (administrative buildings) are to be sold in June of 2023. Project is contracted to be completed by December 1, 2022, but has experienced supply issues causing slight delays.

The first ordinance is for the construction of a general office building located in Asheboro, North Carolina. The project authorization is $4,278,150 of which $178,093 has been expended as of June 30, 2022.

The second ordinance is for the construction of a corporate office building in West End, North Carolina. The project authorization is $2,437,500 of which $422,338 has been expended as of June 30, 2022.

The Center plans to reinvest fund balance in additional projects to improve the quality and quantity of services for its members.

Requests for Information

This report is designed to provide an overview of the Center's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Finance Officer
Sandhills Center for Mental Health, Developmental Disabilities,
and Substance Abuse Services
Post Office Box 9
West End, North Carolina 27376

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
STATEMENT OF NET POSITION

JUNE 30, 2022

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 124,774,531
Due from other governments	3,628,023
Other receivables	142,795
Prepaid insurance	3,698,032
Total Current Assets	132,243,381
Noncurrent Assets:	
Restricted cash	66,757,589
Right-to-use lease assets, net	152,141
Capital Assets:	
Non-depreciable	2,411,949
Depreciable, net of accumulated depreciation	32,523,493
Total Capital Assets, Net	34,935,442
Total Noncurrent Assets	101,845,172
Total Assets	234,088,553
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	6,107,736
Other postemployment benefits deferrals	1,372,000
Total Deferred Outflows of Resources	7,479,736
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	5,239,679
Current portion of lease liability	139,856
Incurred but not reported - Medicaid claims	15,026,344
Incurred but not reported - other claims	472,884
Compensated absences payable	2,074,140
Total Current Liabilities	22,952,903
Noncurrent Liabilities:	
Lease liability	13,287
Net pension liability	3,658,853
Other postemployment benefits liability	3,772,682
Total Noncurrent Liabilities	7,444,822
Total Liabilities	30,397,725
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	6,011,998
Lease deferrals	69,343
Pension deferrals	5,227,402
Other postemployment benefits deferrals	198,249
Total Deferred Inflows of Resources	11,506,992
NET POSITION	
Investment in capital assets	35,087,583
Restricted for:	
Medicaid risk reserve	66,757,589
Unrestricted	97,818,400
Total Net Position	$ 199,663,572

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

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2022

Operating Revenues:	
Restricted Intergovernmental Revenues:	
Federal	$ 9,133,287
State	46,407,033
Medicaid	417,543,266
Other local revenues	25,898,286
Operating Revenues	498,981,872
Operating Expenses:	
Administration	6,016,238.00
Medicaid Administration:	
General	37,051,150.00
Mental health/substance abuse	7,190,200
Developmental disabilities	9,196,570
Contract Services:	
Development disabilities	8,740,671
Mental health	27,169,446
Substance abuse	19,017,824
Medicaid waiver	330,208,464
Total Operating Expenses	444,590,563
Change in net position	54,391,309
Net position, beginning of year	145,272,263
Net position, end of year	$ 199,663,572

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

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

Cash flows from operating activities:	
Cash received from third party vendors	$ 503,729,844
Cash payments to suppliers for good and services	(412,256,915)
Cash payments to employees for services	(24,489,042)
Leasing revenues	583,971
Other cash payments, net	(1,517,079)
Net cash flows from operating activities	66,050,779
Cash flows from capital and related financing activities:	
Purchase of capital assets	(1,411,062)
Net cash flows from capital and related financing activities	(1,411,062)
Net change in cash and cash equivalents	64,639,717
Cash and cash equivalents, beginning of year	126,892,403
Cash and cash equivalents, end of year	$ 191,532,120
Reconciliation of operating loss to net cash from operating activities:	
Loss from operations	$ 54,391,309
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation and amortization	1,463,485
Changes in assets and liabilities:	
Due from other governments	(593,405)
Accounts receivable	(86,650)
Right-to-use lease asset, net	(152,141)
Prepaid insurance	(1,517,079)
Deferred outflows of resources	(1,936,972)
Accounts payable and accrued liabilities	1,929,467
Lease liability	153,143
Incurred but not reported - Medicaid	4,157,788
Incurred but not reported - other	55,725
Compensated absences payable	209,685
Net pension liability	(4,742,984)
Other postemployment liability	1,457,562
Deferred inflows of resources	11,261,846
Net cash flows from operating activities	$ 66,050,779
Cash and cash equivalents per statement of net position:	
Unrestricted	$ 124,774,531
Restricted	66,757,589
Total cash and cash equivalents per statement of net position	$ 191,532,120

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

Note 1—Summary of significant accounting policies

The basic financial statements of Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center") have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below.

Reporting Entity – The Center is a Local Management Entity – Managed Care Organization ("LME-MCO") designated by and functioning under the control of the North Carolina Department of Health and Human Services to provide mental health, developmental disabilities, and substance abuse services in Moore, Randolph, Hoke, Richmond, Montgomery, Anson, Lee, Harnett, Davidson, Rockingham, and Guilford Counties. The services include reviewing and evaluating the area needs and programs in mental health, intellectual developmental disabilities, substance use and related fields, and developing jointly with the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, an annual plan for the effective development, use, and control of state and local facilities and resources in a comprehensive program of mental health service for the residents of the area. The Center, which is governed by a Board of Directors that includes representatives from each of the eleven counties the Center serves, is an area authority empowered by Chapter 122C of the North Carolina General Statutes with the responsibility to oversee and control all activities related to mental health, developmental disabilities, and substance abuse services in its target area. The Center has no component units which, under U.S. GAAP, are legally separate entities for which the Center is financially accountable. The Center has been disclosed as a joint venture on the financial statements of Moore, Randolph, Hoke, Richmond, Montgomery, Anson, Lee, Harnett, Davidson, Rockingham, and Guilford Counties.

Description of a Local Management Entity – Managed Care Organization ("LME-MCO") – An LME-MCO is an agency in the state of North Carolina, created by North Carolina General Statute 122C, that plans, develops, implements, and monitors behavioral health services within a specified geographic area, according to state requirements. This includes developing a full range of services that provide inpatient and outpatient treatment, services, and/or supports for both insured and uninsured individuals. These services are primarily funded by federal and state grants. The LME-MCO agency also manages behavioral health services in a specific geographic area provided through the state's Medicaid 1915(b)(c) Waiver plan. Under this plan, the Center receives a contractual, capitated fee per member per month and coordinates care through a defined network of providers, physicians, and hospitals.

Basis of Presentation, Government-Wide Statements – The statement of net position and the statement of revenues, expenses, and changes in net position display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Business-type activities generally are financed through patient fees, intergovernmental revenues, and other non-exchange transactions.

Basis of Presentation, Fund Financial Statements – The fund financial statements provide information about the Center's funds.

The Center reports one proprietary fund:

> *Enterprise Fund* – The Enterprise Fund is the primary operating fund of the Center. The Enterprise Fund accounts for all financial resources. Additionally, the Center has legally adopted a Capital Projects Fund which is consolidated into the Enterprise Fund. The budgetary comparison for the Capital Projects Fund has been included in the supplementary information.

Note 1—Summary of significant accounting policies (continued)

Measurement Focus and Basis of Accounting – In accordance with North Carolina General Statutes, all funds of the Center are maintained during the year using the accrual basis of accounting.

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Center gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements – Certain supplementary information for the fund statements is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the fund statements. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. The Center has no Fiduciary Funds to report. Effective July 1, 2020, the Center implemented GASB No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities and provides guidance on how to report fiduciary activities within financial statements. As a result of implementing the statement, the Center performed a comprehensive review of its fiduciary relationships and determined the Center has no fiduciary funds to report.

Under the terms of grant agreements, the Center funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Center's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Budgetary Data – As required by North Carolina General Statute 159-42 (c-d), the Center maintains budgetary controls over all funds. A budget is adopted annually by the Board of Directors. All annual appropriations lapse at the fiscal year-end.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. Any revisions that alter total expenditures of any fund must be approved by the governing board. During the year, several amendments to the original budget were necessary.

By June 1, the budget and the budget message shall be submitted to the governing board. A public hearing on the budget shall be scheduled at this time. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Use of Estimates – The preparation of financial statement in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note 1—Summary of significant accounting policies (continued)

Deposits and Investments – All deposits of the Center are made in board-designated official depositories and are secured as required by state law [G.S. 159-31]. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the Center may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Center to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the state of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain nonguaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust ("NCCMT").

The Center's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at amortized cost.

Cash and Cash Equivalents – The Center pools money from several accounts to facilitate disbursement and investment and to maximize investment income. All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

Restricted Assets – With the execution of the Medicaid waiver contract between the North Carolina Department of Health and Human Services, the Division of Medical Assistance ("DMA"), and the Center, a restricted risk reserve account was established to maintain a minimum required balance for obligations of the contract. Withdraws and disbursements must be approved by DMA. The balance of the risk reserve account is $66,757,589 at June 30, 2022, and is considered to be noncurrent. When both restricted and unrestricted resources are available for use (use is approved by the third party who required the restriction, if applicable), the Center uses restricted resources first, then unrestricted resources as they are needed.

Due from Other Governments and Other Receivables – All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts when appropriate. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and evaluating current information related to the collectability of individual receivables. The Center has no allowance for doubtful accounts in the current year.

Capital Assets – Capital assets are recorded at original cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The minimum capitalization cost is $5,000 for buildings, improvements, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Center are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	15 to 40
Equipment	3 to 10

Note 1—Summary of significant accounting policies (continued)

Deferred Outflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Center has two items that meet this criterion, pension and other postemployment benefit ("OPEB") deferrals.

Compensated Absences – The vacation policy of the Center provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. For the Center's government-wide statements, an expense and a liability for compensated absences and the salary-related payments are recovered as the leave is earned.

The Center's sick leave policy allows for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. During fiscal year end June 30, 1995, the Center adopted a policy of voluntary shared leave. This policy provides an opportunity for employees with accumulated vacation or sick leave to assist another affected by a medical condition that required absence from duty for a prolonged period of time resulting in possible loss of income due to lack of accumulated leave. Since the Center has obligation for the sick leave when it is taken and may be used towards length of service at time of employees' retirement.

Incurred but Not Reported – Medicaid Claims – Under the Medicaid 1915(b)(c) Waiver, the Center pays providers for Medicaid claims in the Center's nine-county catchment area. The Center estimates claims incurred but not reported ("IBNR") and adds that to claims reported but not paid ("RBNP") as of June 30, reporting the total as incurred but not reported – Medicaid claims. RBNP claims include all eligible federal, state, and local claims related to the year ended June 30, 2022, with the exception of Medicaid claims where the eligibility is longer, and the liability is not known. IBNR was estimated to be $15,026,344 as of June 30, 2022.

Incurred but Not Reported – Other Claims – The Center utilizes a third party to track its internal health insurance claims. The estimate of incurred but not reported claims related to the Center's internal health insurance is comprised of the claims incurred for the Center's medical, dental, and prescription insurance reduced by an estimated factor for the percent complete the payout for the claims incurred. The liability was estimated to be $472,884 as of June 30, 2022.

Right-to-use Lease Asset and Lease Liability – The Center has recorded right-of-use lease assets and liabilities as a result of implementing GASB 87, *Leases*. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use lease assets are amortized on a straight-line basis over the life of the related lease.

Net Pension Liability – 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 the Local Government Employees' Retirement System ("LGERS"), and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan members' contributions are recognized in the period in which the contributions are due. The Center's employer contributions are recognized when due and the Center has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Note 1—Summary of significant accounting policies (continued)

Net OPEB Liability – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, member, and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the term of the OPEB plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Center has four items that meet the criterion for this category, unearned revenue, leases, pension, and OPEB deferrals.

Net Position – Net position in government-wide financial statements is classified as net investment in capital assets, restricted, and unrestricted. Net invested in capital assets consists of capital assets, net of accumulated depreciation. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. Restricted amounts for the Medicaid Risk Reserve include the portion of fund balance restricted by the Medicaid 1915 b/c waiver. Unrestricted net position represents the remaining net position that does not meet the definition of net invested in capital assets or restricted net position.

Fund Balances – In the fund financial statements, fund balance is composed of classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The fund financial statements classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Insurance – The portion of fund balance that is not an available resource because it presents the year-end balance of prepaid insurance, which is not a spendable resource.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by law.

Restricted for Stabilization by State Statute – The portion of fund balance that is restricted by state Statute [G.S. 159-8(a)].

Restricted for Medicaid Risk Reserve – The portion of fund balance that is restricted by an agreement with the North Carolina Department of Health and Human Services Division of Medical Assistance. The agreement requires that the Center maintain a reserve equal to 2% of the total Medicaid payments received. This reserve is fully funded at June 30, 2022.

Assigned Fund Balance – The portion of fund balance that has been designated by the board for future growth and expansion.

Unassigned Fund Balance – The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Note 1—Summary of significant accounting policies (continued)

The Center has a revenue spending policy that provides guidance for programs with multiple revenue sources. The finance officer will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-Center funds, and Center funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The finance officer has the authority to deviate from this policy if it is in the best interest of the Center.

The Center has not adopted a minimum fund balance policy for the Enterprise Fund.

Adoption of GASB 87 – Effective July 1, 2021, the Center implemented GASB Statement No. 87, *Leases*. GASB 87 establishes standards for accounting and financial reporting for leases by lessors and lessees. As a lessor, the Center recognizes lease receivables and a deferred inflow of resources on the statement of net position, and will recognize the deferred inflow of resources as revenue in a systematic and rational manner over the term of the respective leases on the statement of changes in net position. As a lessee, the Center will record a right-to-use asset and a corresponding lease liability on the statement of net position, and will amortize the leased asset on a straight-line basis over the lease term on the statement of changes in net position. The effect on the financial statements as a result of this implementation was to record a lease receivable asset together with a deferred inflow of resources in the amount of $603,854 as well as a right-to-use asset and lease liability in the amount of $293,591 on the statement of net position as of July 1, 2021. There was no effect on net position as a result of this implementation.

Note 2—Cash and cash equivalents

Deposits – All of the deposits of the Center are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Center’s agents in the unit’s name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Center, these deposits are considered to be held by the Center’s agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Center or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Center under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Center has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Center complies with the provisions of G.S. 159-31 when designating official depositories and verifying deposits are properly secured. The organization has no formal policy regarding custodial credit risk for deposits.

At June 30, 2022, the Center’s deposits had a carrying amount of $170,955,272 and a bank balance of $171,840,888. Of the bank balance, $250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. Petty cash at June 30, 2022 totaled $1,567.

Note 3—Investments

At June 30, 2022, the Center had $20,575,281 invested with the North Carolina Capital Management Trust's Cash Portfolio. All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. The Center's investment with the North Carolina Capital Management Trust's Cash Portfolio is considered a Level 1 investment, which is valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Center does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Center's investment in the North Carolina Management Trust's Cash Portfolio carries a credit rating of AAAm by Standard & Poor's and AAAm-mf by Moody's Investors Services as of June 30, 2022. The Cash Portfolio seeks to obtain as high a level of current income as is consistent with the preservation of capital and liquidity, and to maintain a constant net asset value of $1 per share through investment in high grade money market instruments, including obligations of the U.S. government and the state of North Carolina, and in bonds and notes of any North Carolina local government or public authority.

Concentration of Credit Risk – The Center has no policy regarding the limit on the amount the Center may invest in any one issuer. As of June 30, 2022, 100% of the Center's investments are in the North Carolina Capital Management Trust's Cash Portfolio.

Note 4—Due from other governments

Amounts due from other governments at June 30, 2022 were as follows:

Medicaid receivable	$ 821,426
Other receivables	2,806,597
	$ 3,628,023

Management has determined there was not a need to establish an allowance for uncollectible accounts at June 30, 2022.

Note 5—Capital assets

Capital asset activity for the year ended June 30, 2022 were as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Capital assets not being depreciated:				
Land	$ 1,453,207	$ 404,268	$ (68,000)	$ 1,789,475
Construction in progress	7,448,203	972,959	(7,798,688)	622,474
Total capital assets not being depreciated	8,901,410	1,377,227	(7,866,688)	2,411,949
Capital assets being depreciated:				
Buildings	28,109,466	7,798,688	-	35,908,154
Furniture and other equipment	4,703,289	101,835	-	4,805,124
Software	1,485,870	-	-	1,485,870
Total capital assets being depreciated	34,298,625	7,900,523	-	42,199,148
Less accumulated depreciation for:				
Buildings	4,942,697	931,964	-	5,874,661
Furniture and other equipment	3,195,179	234,347	-	3,429,526
Software	74,294	297,174	-	371,468
Total accumulated depreciation	8,212,170	1,463,485	-	9,675,655
Capital assets being depreciated, net	26,086,455	$ 6,437,038	$ -	32,523,493
Capital assets, net	$ 34,987,865			$ 34,935,442

Note 6—Leases

The Center leases out building space for facility usage across the state of North Carolina with lease maturity dates extending through June 30, 2023. During the year ended June 30, 2022, the Center implemented GASB Statement No. 87 – *Leases*, which requires the Center to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflows of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

The Center is required to recognize interest income on the lease receivable and an inflow of resources, or lease revenue, from the deferred inflow of resources in a systematic and rational manner over the term of the lease. The Center has chosen to use a straight-line amortization of the deferred inflows of resources. As of June 30, 2022, the future lease payments included in the measurement of the lease receivable include principal and interest of $68,666 and $13, respectively.

Note 6—Leases (continued)

The Center also leases certain facilities and equipment under noncancelable leases. The lease agreements quality as other than short-term leases under GASB 87 and, therefore, a right-to-use lease asset has been recorded at the present value of the future minimum lease payments as of the date of their inception. The right-to-use lease asset is amortized on a straight-line basis over the life of the related lease. The leases have various terms, with maturity ranging from 2023 through 2025. The leases have discount rates ranging from 1.22% to 1.64%. Right-to-use lease asset activity for the Center for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Right-to-use lease assets:				
Leased building	$ -	$ 160,393	$ -	$ 160,393
Leased equipment	-	133,198	-	133,198
Total right-to-use lease asset	-	293,591	-	293,591
Less accumulated amortization for:				
Leased building	-	(72,430)	-	(72,430)
Leased equipment	-	(69,020)	-	(69,020)
Right-to-use lease asset, net	$ -	$ 152,141	$ -	$ 152,141

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2022 were as follows:

Years Ending June 30,	Principal Payments	Interest Payments	Total
2023	$ 139,598	$ 1,211	$ 140,809
2024	7,798	210	8,008
2025	5,747	82	8,008
	$ 153,143	$ 1,503	$ 156,825

The Center has various short-term lease agreements for facilities and equipment that fall outside of the scope of GASB 87. Rental expense related to the agreements amounted to $51,250 as of June 30, 2022.

Note 7—Payables

Accounts payable, incurred but not reported claims, and other current liabilities at June 30, 2022 were as follows:

	Vendors	Compensated Absences	Incurred but Not Reported Claims	Total
Payables	$ 5,379,535	$ 2,074,140	$ 15,499,228	$ 22,952,903

Note 8—Retirement plan

Defined Contribution Pension Plan – The Center is a participating employer in the statewide Local Governmental Employees' Retirement System ("LGERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. LGERS is included in the Annual Comprehensive Financial Report for the state of North Carolina. The state's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided – LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic postretirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Center employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Center's contractually required contribution rate for the year ended June 30, 2022 was 11.35% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Center were $2,271,328 for the year ended June 30, 2022.

Refunds of Contributions – The Center's employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the Center reported a liability of $3,658,853 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date as of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions. The Center's proportion of the net pension liability was based on a projection of the Center's long-term share of future payroll covered by the pension plan, related to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined.

Note 8—Retirement plan (continued)

At June 30, 2021, the Center's proportion was 0.239% which was an increase of 0.235% from its proportion measured at June 30, 2020.

For the year ended June 30, 2022, the Center recognized pension expense of $1,840,960. At June 30, 2022, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,164,013	$ -
Changes of assumptions	2,298,694	-
Net differences between projected and actual earnings on pension plan investments	-	5,227,402
Changes in proportion and differences between the Center's contributions and proportionate share of contributions	373,702	-
The Center's contributions subsequent to the measurement date	2,271,328	-
	$ 6,107,737	$ 5,227,402

$2,271,328 reported as deferred outflows of resources related to pensions resulting from the Center's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2023	$ 521,649
2024	44,561
2025	(357,587)
2026	(1,599,616)
	$ (1,390,993)

Actuarial Assumptions – The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 8.25 %, including inflation and productivity factor of 3.50%
Investment rate of return	6.50 %, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e., general, law enforcement officer), and health status (i.e., disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of the experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

Note 8—Retirement plan (continued)

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed-income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple-year horizons. Global-public equity return projections are established through analysis of the equity-risk premium and the fixed-income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.00%	1.40%
Global equity	42.00%	5.30%
Real estate	8.00%	4.30%
Alternatives	8.00%	8.90%
Credit	7.00%	6.00%
Inflation protection	6.00%	4.00%
	100.00%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.5%. All rates of return and inflation are annualized.

Discount Rate – The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 8—Retirement plan (continued)

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Center's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the Center's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (5.50%) or one-percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
The Center's proportionate share of the net pension liability	$ 14,203,364	$ 3,658,853	$ (5,018,666)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the state of North Carolina.

Note 9—Other postemployment benefits

Plan Description and Benefits Provided – The Center administers a single-employer, defined benefit healthcare plan. At retirement, employees with at least 15 consecutive years of service with the Center and at least 60 years of age have the option of continuing medical coverage under the current plan until the earlier of age 65, obtain coverage under another comparable plan, or become eligible for Medicare. The Center's board may amend the benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. A separate report was not issued for the plan.

Membership of the healthcare plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Retired members	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	299
	301

Total OPEB Liability – The Center's total OPEB liability of $3,772,682 was measured as of June 30, 2021 and was determined by an actuarial valuation as June 30, 2021.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	0.75%
Wage inflation	3.25%
Salary increases, including wage inflation	3.25% - 8.41%
Municipal bond index rate prior:	
Prior measurement date	2.21%
Measurement date	2.16%
Healthcare cost trend rates:	
Pre-Medicare	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
Dental	3.50%

Note 9—Other postemployment benefits (continued)

The discount rate is based on the yield of the Standard & Poor's Municipal Bond 20-Year High Grade Rate Index as of the measurement date.

Changes in the total OPEB liability:

	Total OPEB Liability
Balance at June 30, 2021	$ 2,315,120
Changes for the year:	
Service cost	187,517
Interest	55,271
Changes of benefit teams	-
Differences between expected and actual experience	820,829
Changes in assumptions or other inputs	397,350
Benefit payments	(3,405)
Net changes	1,457,562
Balance at June 30, 2022	$ 3,772,682

Changes in assumptions and other inputs reflect a change in the discount rate from 2.21% to 2.16%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 2015 through December 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Center, as well as what the Center's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.16%) or one-percentage point higher (3.16%) than the current discount rate:

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	$ 4,224,078	$ 3,772,682	$ 3,376,053

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Center, as well as what the Center's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
Total OPEB liability	$ 3,284,501	$ 3,772,682	$ 4,355,485

Note 9—Other postemployment benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2022, the Center recognized OPEB expense of $401,210. At June 30, 2022, the Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 720,928	$ 154,751
Changes of assumptions	609,293	43,498
	$ 1,330,221	$ 198,249

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,	
2023	$ 158,422
2024	158,422
2025	160,576
2026	170,872
2027	182,348
Thereafter	301,332
	$ 1,131,972

Note 10—401(k) plan

The Center offers all employees a qualified-deferred compensation plan. The Center contributes a 401(k) match of up to 3% of qualifying income for eligible staff annual base salary. In addition to the Center’s contribution, the employee may contribute a tax-deferred percentage of their salary each year. Center and employee contributions are considered fully-vested when made. The Center’s contributions for the year ended June 30, 2022 totaled $422,062.

Note 11—Risk management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center carries commercial insurance for general and professional liability coverage up to $3,000,000 aggregate, auto liability up to $2,000,000 for each accident, director’s and officer’s liability up to $3,000,000, and property coverage of $32,368,457 for buildings and $1,428,600 for business and personal property. Claims have not exceeded coverage in any of the last three fiscal years.

As the Center has no facilities within a recognized flood zone, it elected not to carry additional flood insurance coverage.

In accordance with G.S. 159-29, the Center’s employees that have access to $100 or more at any given time of the Center’s funds are performance bonded through a commercial surety bond. The finance officer is bonded for $300,000 and all remaining employees that have access to funds are bonded under a blanket bond for $500,000.

Note 11—Risk management (continued)

The Center self-insures for employee health and accident claims up to a stop loss provision of $80,000 per employee, per occurrence and an aggregate stop loss provision of $1,000,000. The Center carries commercial insurance coverage above these limits. A summary of changes in the self-insured health claims liability is as follows:

Balance at July 1, 2021	$ 417,159
Claims incurred	4,744,865
Claims paid	(5,162,024)
Claims incurred, but not reported at year-end	472,884
Balance at June 30, 2022	$ 472,884

Note 12—Commitments and contingencies

The Center has received proceeds from several federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

From time to time, the Center is party to other pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material, adverse effect on the Center's financial position or results of operations.

Note 13—Long-term obligations

The following is a summary of changes in the Center's long-term obligations for the fiscal year ended June 30, 2022:

	Balance July 1, 2021	Increases	Decreases	June 30, 2022	Current Obligation
Net lease liability	$ -	$ 13,287	$ -	$ 13,287	$ 139,856
Net pension liability	8,401,837	-	4,742,984	3,658,853	-
Net OPEB liability	2,315,120	1,457,562	-	3,772,682	-
	$ 10,716,957	$ 1,470,849	$ 4,742,984	$ 7,444,822	$ 139,856

Note 14—Related party transactions

The Center receives financial support from each of the counties in its catchment area, which includes Moore, Randolph, Hoke, Richmond, Montgomery, Anson, Lee, Harnett, Rockingham, Davidson, and Guilford Counties. During the year ended June 30, 2022, revenues received from these counties amounted to $12,058,409.

Note 15—Economic dependence

The Center receives approximately 11% of its revenue from state and federal (passed through the state) intergovernmental revenue, and 84% of its revenue from the Medicaid Waiver contract, for the various programs the Center administers. Any significant change, either increase or decrease, in funding for these programs could result in a material change in the operations of the Center.

Note 16—Transfer of Operations

In December of 2022, the Center added the counties of Davidson and Rockingham to the Center's service area as a transfer of operations from Cardinal Innovations. The Center received the transfer of fund balance of $9.4 million related to the two counties in the form of cash.

Note 17—Subsequent events

Management has evaluated the subsequent events through October 31, 2022, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

- Schedule of Changes in the Total OPEB Liability and Related Ratios
- Schedule of Proportionate Share of the Net Pension Liability – Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System and Notes to the Required Schedules for Local Government Employees' Retirement System

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2022

	2022	2021
Total OPEB Liability:		
Service cost	$ 187,517	$ 144,423
Interest	55,271	68,697
Differences between expected and actual experience	820,829	9,823
Changes of assumptions	397,350	284,015
Benefits payments	(3,405)	(20,138)
Net Changes in Total OPEB Liability	1,457,562	486,820
Total OPEB liability - beginning	2,315,120	1,828,300
Total OPEB Liability - Ending	$ 3,772,682	$ 2,315,120
Covered Payroll	$ 17,106,546	$ 18,427,915
Total OPEB Liability as a Percentage of Covered Payroll	22.05%	12.56%

Notes to the Required Supplementary Information

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal Year	Rate
2021	2.21%
2022	2.16%

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY—
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2022

	2022	2021	2020	2019	2018	2017
Schedule of Proportionate Share of the Net Pension Liability						
Center's proportion of the net pension liability (%)	0.23858%	0.23512%	0.22319%	0.2210%	0.2169%	0.1778%
Center's proportion of the net pension liability ($)	$ 3,658,853	$ 8,401,837	$ 6,095,143	$ 5,242,637	$ 3,312,867	$ 3,773,936
Center's covered-employee payroll	18,200,961	17,845,521	17,087,639	15,674,896	14,582,699	14,657,934
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	20.10%	47.08%	35.67%	33.45%	22.72%	25.75%
Plan fiduciary net position as a percentage of the total pension liability (asset)	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%
Schedule of Contributions						
Contractually required contribution	$ 2,271,328	$ 1,847,400	$ 1,596,665	$ 1,323,815	$ 1,175,092	$ 1,057,249
Contributions in relation to the contractually required contribution	2,271,328	1,847,400	1,596,665	1,323,815	1,175,092	1,057,249
Contributions deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Center's covered-employee payroll	20,034,297	$ 18,200,961	$ 17,845,521	$ 17,087,639	$ 15,674,896	$ 14,582,699
Contributions as a percentage of covered-employee payroll	11.34%	10.15%	8.95%	7.75%	7.50%	7.25%

Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2020
Actuarial cost method	Entry Age
Amortization method	Level dollar, closed
Amortization period	12 years
Asset valuation method	Asset returns in excess of or less than the expected return on market value of assets reflected over a five-year period (not greater than 120% of market value and not less that 80% of market value).
Actuarial assumptions:	
Investment rate of return*	6.50%
Inflation	2.50%
Salary increases**	3.25% - 8.25%
Cost-of-living adjustments	None

* Net of pension plan investment expense, including inflation.

** Including inflation and productivity factor of 2.50%.

SUPPLEMENTARY INFORMATION

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
MEDICAID BALANCE SHEET

JUNE 30, 2022

	Medicaid Related	Non-Medicaid Related	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 101,329,521	$ 23,445,010	$ 124,774,531
Due from other governments	1,104,371	2,523,652	3,628,023
Other receivables	-	142,795	142,795
Prepaid insurance	-	3,698,032	3,698,032
Total Current Assets	102,433,892	29,809,489	132,243,381
Noncurrent Assets:			
Restricted cash	66,767,956	(10,367)	66,757,589
Right-of-use leased assets amortized, net	-	152,141	152,141
Capital Assets:			
Non-depreciable	1,431,579	980,370	2,411,949
Depreciable, net of accumulated depreciation	26,036,190	6,487,303	32,523,493
Total Capital Assets, Net	27,467,769	7,467,673	34,935,442
Total Noncurrent Assets	94,235,725	7,609,447	101,845,172
Total Assets	196,669,617	37,418,936	234,088,553
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	4,434,211	1,673,525	6,107,736
Other postemployment benefits deferrals	-	1,372,000	1,372,000
Total Deferred Outflows of Resources	4,434,211	3,045,525	7,479,736
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	541,688	4,697,991	5,239,679
Current portion of lease liability	-	139,856	139,856
Incurred but not reported - medicaid claims	13,865,375	1,160,969	15,026,344
Incurred but not reported - other claims	-	472,884	472,884
Compensated absences payable	6,623,897	(4,549,757)	2,074,140
Total Current Liabilities	21,030,960	1,921,943	22,952,903
Noncurrent Liabilities:			
Lease liability	-	13,287	13,287
Net pension liability (asset)	8,401,837	(4,742,984)	3,658,853
Other postemployment benefits liability	367,845	3,404,837	3,772,682
Total Noncurrent Liabilities	8,769,682	(1,324,860)	7,444,822
Total Liabilities	29,800,642	597,083	30,397,725
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	-	6,011,998	6,011,998
Leases	-	69,343	69,343
Pension deferrals	-	5,227,402	5,227,402
Other postemployment benefits deferrals	-	198,249	198,249
Total Deferred Inflows of Resources	-	11,506,992	11,506,992
NET POSITION			
Net investment in capital assets	27,467,769	7,619,814	35,087,583
Restricted	114,809,335	(48,051,746)	66,757,589
Unrestricted	29,026,082	68,792,318	97,818,400
Total Net Position	$ 171,303,186	$ 28,360,386	$ 199,663,572

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
MEDICAID INCOME STATEMENT

YEAR ENDED JUNE 30, 2022

	Medicaid Related	Non-Medicaid Related	Total
Operating Revenues:			
Restricted Intergovernmental Revenues:			
Federal	$ -	$ 9,133,287	$ 9,133,287
State	-	46,407,033	46,407,033
Medicaid	417,544,614	(1,348)	417,543,266
Other local revenues		25,898,286	25,898,286
Operating Revenues	417,544,614	81,437,258	498,981,872
Operating Expenses:			
Administration		6,016,238	6,016,238
Medicaid Administration:			
General	37,944,799	(893,649)	37,051,150
Mental health/substance abuse	6,676,188	514,012	7,190,200
Developmental disabilities	8,330,737	865,833	9,196,570
Contract Services:			
Development disabilities	-	8,740,671	8,740,671
Mental health	-	27,169,446	27,169,446
Substance abuse	-	19,017,824	19,017,824
Medicaid waiver	330,208,460	4	330,208,464
Total Operating Expenses	383,160,184	61,430,379	444,590,563
Transfer of fund balance	9,813,164	(9,813,164)	-
Operating Income	44,197,594	10,193,715	54,391,309
Change in net position	44,197,594	10,193,715	54,391,309
Net position, beginning of year	127,105,592	18,166,671	145,272,263
Net position, end of year	$ 171,303,186	$ 28,360,386	$ 199,663,572

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
MEDICAID STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

	Medicaid Related	Non-Medicaid Related	Total
Cash flows from operating activities:			
Cash received from federal, state, and local agencies	$ 418,948,474	$ 84,781,370	$ 503,729,844
Cash payments to suppliers of goods and services	(366,536,047)	(45,720,868)	(412,256,915)
Cash payments to employees	(7,706,246)	(16,782,796)	(24,489,042)
Leasing revenues	-	583,971	583,971
Other cash payments, net	9,813,164	(11,330,243)	(1,517,079)
Net cash flows from operating activities	54,519,345	11,531,434	66,050,779
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(5,418,644)	4,007,582	(1,411,062)
Net cash flows from capital and related financing activities	(5,418,644)	4,007,582	(1,411,062)
Net increase in cash and cash equivalents	49,100,701	15,539,016	64,639,717
Cash and cash equivalents, beginning of year	118,996,776	7,895,627	126,892,403
Cash and cash equivalents, end of year	$ 168,097,477	$ 23,434,643	$ 191,532,120
Reconciliation of operating income to net cash from operating activities:			
Operating income	$ 44,197,594	$ 10,193,715	$ 54,391,309
Adjustments to reconcile operating income to net cash flows from operating activities:			
Depreciation	-	1,463,485	1,463,485
Changes in assets and liabilities:			
Due from other governments	1,079,235	(1,672,640)	(593,405)
Accounts receivable	324,625	(411,275)	(86,650)
Net right-of-use lease asset	-	(152,141)	(152,141)
Prepaid insurance	-	(1,517,079)	(1,517,079)
Deferred outflows of resources	-	(1,936,972)	(1,936,972)
Accounts payable and accrued liabilities	4,049,690	(2,120,223)	1,929,467
Lease liability	-	153,143	153,143
Incurred but not reported - Medicaid	-	4,157,788	4,157,788
Incurred but not reported - other	-	55,725	55,725
Compensated absences payable	4,868,201	(4,658,516)	209,685
Net pension liability	-	(4,742,984)	(4,742,984)
Other postemployment liability	-	1,457,562	1,457,562
Deferred inflows of resources	-	11,261,846	11,261,846
Net cash flows from operating activities	$ 54,519,345	$ 11,531,434	$ 66,050,779

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
BALANCE SHEET (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

JUNE 30, 2022

ASSETS		
Cash and cash equivalents	$	124,774,531
Due from other governments		3,628,023
Other receivables		142,795
Prepaid insurance		3,698,032
Restricted cash		66,757,589
Total Assets	$	199,000,970
LIABILITIES		
Accounts payable and accrued liabilities	$	5,239,679
Incurred but not reported - Medicaid claims		15,026,344
Incurred but not reported - other claims		472,884
Total Liabilities		20,738,907
DEFERRED INFLOWS OF RESOURCES		
Leases		69,343
Unavailable revenues		7,961,457
Total Deferred Inflows of Resources		8,030,800
FUND BALANCES		
Nonspendable:		
Prepaid insurance		3,698,032
Restricted:		
Stabilization by State Statute		4,911,640
Medicaid Risk Reserve		66,757,589
Assigned		52,747,269
Unassigned		42,116,733
Total Fund Balances		170,231,263
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	199,000,970

Reconciliation of fund balance as reported in the balance sheet with the statement of net position:		
Total fund balance reported above	$	170,231,263
Amounts reported for government activities in the statement of net position are different because:		
Accounts receivable not collected within 60 days after year-end is deferred in the funds		8,030,800
Right-to-use leased assets, net used in government activities are not financial resources and therefore are not reported in the funds		152,141
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		34,935,442
Deferred outflows of resources related to the pension plan are not reported in the funds		6,107,736
Deferred outflows of resources related to OPEB are not reported in the funds		1,372,000
Deferred inflows of resources related to the pension plan are not reported in the funds		(11,308,743)
Deferred inflows of resources related to OPEB are not reported in the funds		(198,249)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Net pension liability		(3,658,853)
Total OPEB liability		(3,772,682)
Compensated absences payable		(2,074,140)
Lease liability		(153,143)
Total Net Position	$	199,663,572

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

YEAR ENDED JUNE 30, 2022

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Restricted Intergovernmental Revenues:			
Federal	$ 11,349,819	$ 9,133,287	$ 2,216,532
State	49,725,920	46,407,033	3,318,887
Medicaid	428,441,723	417,543,266	10,898,457
Other local revenues	24,561,860	25,898,286	(1,336,426)
Total Revenues	514,079,322	498,981,872	15,097,450
Expenditures:			
Administrative	7,725,725	5,791,501	1,934,224
Medicaid Administration:			
General	36,349,214	36,031,501	317,713
Mental health/substance abuse	8,112,688	7,180,068	932,620
Developmental disabilities	10,166,674	9,181,653	985,021
Contract Services:			
Developmental disabilities	9,840,583	8,740,671	1,099,912
Mental health	41,532,601	27,169,446	14,363,155
Substance abuse	21,677,953	19,017,824	2,660,129
Medicaid waiver	386,319,639	330,208,464	56,111,175
Medicaid - other	-	-	-
Total Expenditures	521,725,077	443,321,128	78,403,949
Revenues under expenditures	(7,645,755)	55,660,744	(63,306,499)
Other Financial Uses:			
Transfer to Capital Projects Fund	(6,715,650)	(6,715,650)	-
Fund balance appropriated	14,361,405	-	(14,361,405)
Net Change in Fund Balance	$ -	48,945,094	$ 48,945,094
Fund balance, beginning of year		133,120,541	
Fund balance, end of year		182,065,635	
A legally budgeted capital projects fund is consolidated into the General Fund for reporting purposes:			
Expenditures in excess of project authorization at beginning of year		2,385,792	
Transfer from general fund		6,715,650	
Expenditures		(20,935,814)	
Fund balance, end of year		$ 170,231,263	

Reconciliation from modified accrual basis of accounting to full accrual:		
Revenues, expenditures, and changes in fund balance to the statement of activities:		
Total net change in fund balance	$	48,945,094
Reconciling Items:		
Depreciation and amortization expense		(1,463,485)
Compensated absences payable		(209,685)
Transfer to capital projects fund		6,715,650
Capital outlay expenditures		1,479,062
Lease expense		(31,146)
Contributions to the pension plan		2,271,328
Pension expense		(3,495,085)
OPEB plan expense		179,576
Change in Net Position	$	54,391,309

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS – PROJECT-LENGTH BUDGETS) – CAPITAL PROJECTS FUND

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2022

		Actual			Variance
	Project Authorization	Prior Years	Current Year	Total to Date	Favorable (Unfavorable)
Expenditures:					
Capital Improvements:					
Guilford Child Based Facility	$ 7,024,258	$ 7,447,339	$ 372,227	$ 7,819,566	$ (795,308)
Walker Avenue Asheboro	5,149,000	5,461,655	-	5,461,655	(312,655)
Richmond County	5,740,975	5,843,495	300	5,843,795	(102,820)
Guilford Porcher Way Renovation	1,554,000	2,038,549	-	2,038,549	(484,549)
Guilford Porcher Facility Building	3,750,000	3,357,193	-	3,357,193	392,807
Alphind In-House Software	-	1,455,794	-	1,455,794	(1,455,794)
Asheboro	4,278,150	-	178,093	178,093	4,100,057
Admin	2,437,500	-	422,338	422,338	2,015,162
Total Expenditures	29,933,883	25,604,025	972,958	26,576,983	3,356,900
Other Financing Sources:					
Transfer from General Fund	29,933,883	23,218,233	6,715,650	29,933,883	-
Transfer to General Fund	(12,443,975)	(18,156,686)	-	(18,757,417)	6,313,442
Excess of Other Financing Sources Over (Under) Expenditures	$ -	$ (2,385,792)	$ 5,742,692	$ 3,356,900	$ 3,356,900

COMPLIANCE SECTION

Cherry Bekaert LLP
Your Guide Forward

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

To the Board of Directors
Sandhills Center for Mental Health, Developmental Disabilities,
and Substance Abuse Services
West End, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated October 31, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting ("internal control") as a basis for designing 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Center'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 material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its 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 statements. 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
October 31, 2022

Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance; withOMB Uniform Guidance and the State Single Audit Implementation Act

To the Board of Directors
Sandhills Center for Mental Health, Developmental Disabilities
and Substance Abuse Services
West End, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited the Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina,* issued by the Local Government Commission, that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2022. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); 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") as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance and the State Single Audit Implementation Act are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards,* the State Single Audit Implementation Act, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the State Single Audit Implementation Act, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal contro*l 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 a 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 *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Cherry Bekaert LLP

Raleigh, North Carolina
October 31, 2022

Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor on Compliance with Requirements Applicable to Each Major State Program and on Internal Control over Compliance Required by the OMB Uniform Guidance and the State Single Audit Implementation Act

To the Board of Directors
Sandhills Center for Mental Health, Developmental Disabilities
and Substance Abuse Services
West End, North Carolina

Report on Compliance for Each Major State Program

Opinion on the Major State Program

We have audited the Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina,* issued by the Local Government Commission, that could have a direct and material effect on the Center's major State program for the year ended June 30, 2022. The Center's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2022.

Basis for Opinion on the Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); 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 State Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Our responsibilities under those standards, the Uniform Guidance, and the State Single Audit Implementation Act are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major state program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Center's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the State Single Audit Implementation Act, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the State Single Audit Implementation Act, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 state program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or a 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 state 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 state 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 *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Cherry Bekaert LLP

Raleigh, North Carolina
October 31, 2022

Part I – Summary of Audit Results

Financial Statement

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	___	yes	X	no
Significant deficiency(ies) identified?	___	yes	X	none reported
Noncompliance material to financial statement noted?	___	yes	X	no

Federal Awards

Internal control over major federal program:				
Material weakness(es) identified?	___	yes	X	no
Significant deficiency(ies) identified?	___	yes	X	none reported
Type of auditor's report on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___	yes	X	no

Identification of the Major Federal Programs:

Program Name	Assistance Listing Number
Block Grants for Community Mental Health Services	93.958
Social Services Block Grant	93.667

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000			
Auditee qualified as low-risk auditee?	X	yes	___	no

State Awards

Internal control over major state program:

Material weakness(es) identified?	______ yes	X no
Significant deficiency(ies) identified?	______ yes	X none reported
Type of auditor's report on compliance for major state programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?	______ yes	X no

Identification of Major State Programs:

Program Name

Single Stream Line Funding
TCLI – Community Living Assistance

Part II – Findings Related to the Audit of the Basic Financial Statements

None reported.

Part III – Findings, Responses, and Questioned Costs Related to the Audit of Federal Awards

None reported.

Part IV – Findings, Responses, and Questioned Costs Related to the Audit of State Awards

None reported.

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2022

None reported.

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2022

Program Name	Federal Assistance Listing Number	Federal Expenditures	State Expenditures
FEDERAL AWARDS			
U.S. Department of Health and Human Services Substance Abuse and Mental Health Service Administration:			
Passed-through the N.C. Department of Health and Human Services:			
Division of Mental Health, Developmental Disabilities, and Substance Abuse Services:			
Block Grant for Community Mental Health Services - Community-Based Program - Mental Health	93.958	$ 1,156,832	$ -
State Targeted Response to the Opioid Crisis Grants	93.788	1,429,099	-
Federal Emergency Management Agency (FEMA) - Assistance Listing Crisis Counseling	97.032	177,845	-
Social Services Black Grant - Community-Based Program - Mental Health, Developmental Disabilities, Substance Abuse	93.667	604,713	-
Block Grant for Prevention and Treatment of Substance Abuse - Community-Based Program - Substance Abuse	93.959	4,971,174	-
Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	77,107	-
Promoting Integration of Primary and Behavioral Healthcare	93.243	68,494	-
Total U.S. Department of Health and Human Services		8,485,264	-
Total Federal Awards and State Matches		8,485,264	-

See notes to schedule of expenditures of federal and state awards.

SANDHILLS CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2022

Program Name	Federal Assistance Listing Number	Federal Expenditures	State Expenditures
STATE AWARDS			
N.C. Department of Health and Human Services:			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Single Stream Line Funding	N/A	$ -	$ 31,698,213
Multidisciplinary Evaluation	N/A	-	1,600
DOJ Housing	N/A	-	32,131
DOJ Support Employment	N/A	-	229,141
Crisis Services - Local Psych Inpatient	N/A	-	3,687,950
ADATC	N/A	-	3,275,829
Traumatic Brain Injury	N/A	-	252,446
TCLI CLA	N/A	-	688,128
TCLI TYSR	N/A	-	125,480
TCLI Subsidy Administrative Staffing	N/A	-	50,001
Short-Term Group Home Assistance	N/A	-	132,698
State Disability Rights 100% State	N/A	-	79,253
State Disability Rights NADD	N/A	-	4,868
TCLI Bridge Housing	N/A	-	449,298
TCLI Diversion	N/A	-	196,735
TCLI Transition Coordinators	N/A	-	90,000
TCLI-MH Services	N/A	-	412,239
Total Division of Mental Health, Developmental Disabilities, and Substance Abuse Services		-	41,406,010
Total State Awards		-	41,406,010
Total Federal Awards and State Awards		$ 8,485,264	$ 41,406,010

See notes to schedule of expenditures of federal and state awards.

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal and state awards ("SEFSA") includes the federal and state grant activity of Sandhills Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Center") under the programs of the federal government and the state of North Carolina for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the 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") and the State Single Audit Implementation Act. Because the SEFSA presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Center.

Note 2—Summary of significant accounting policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.