# 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, 2021***

***And Report of Independent Auditor***

Cherry Bekaert LLP
CPAs & Advisors

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

TABLE OF CONTENTS

---

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

TABLE OF CONTENTS

---

**AREA BOARD OF DIRECTORS:**

Thad Ussery (Chairperson)
Harry Southerland (Commissioner)(Vice-Chairperson)
Priscilla Little (Secretary)
Ross Streater
Lewis Weatherspoon (Commissioner)
Tonya Gray
Kirk Smith (Commissioner)
Walter Ferguson
Matthew Rothbeind
Catherine Graham (Commissioner)
Dr. Tommy Jarrell
Alan Perdue (Commissioner)
Gart Evans
Dr. Alvin Keyes
Dr. Walter Salinger
Stephany Bonds
Mike Criscoe (Commissioner)
Carol Whitaker
David Allen (Commissioner)
Mazie Fleetwood
Leann Henkel
Jerry Earnhardt

**AREA OFFICIALS:**

Victoria Whitt............................................................................Chief Executive Officer
Anthony Ward..........................................................................Chief Operating Officer

## 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

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, 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center as of June 30, 2021, 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.

## Other Matters

### *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 and Other 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.

The supplementary information and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, and the procedures performed as described above, this 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 29, 2021, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
October 29, 2021

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, 2021. 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 $145,272,263.
- The Center's total net position increased by $22,870,787.

## 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.

## 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 $145,272,263 as of June 30, 2021. The Center's net position increased by $22,870,787 for the year ended June 30, 2021. 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 $34,987,865. An additional portion of the Center's net position, $48,737,288, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $61,547,110 is unrestricted.

**Table A-1**
**Condensed Statement of Net Position**

| | June 30, | |
|---|---|---|
| | **2021** | **2020** |
| Current and other assets | $ 132,164,119 | $ 115,424,064 |
| Capital assets | 34,987,865 | 27,760,171 |
| Total Assets | 167,151,984 | 143,184,235 |
| Deferred outflows of resources | 5,542,764 | 6,467,625 |
| Current liabilities | 16,460,382 | 19,034,898 |
| Long-term liabilities | 10,716,957 | 7,923,443 |
| Total Liabilities | 27,177,339 | 26,958,341 |
| Deferred inflows of resources | 245,146 | 292,043 |
| Net Position: | | |
| Investment in capital assets | 34,987,865 | 27,760,171 |
| Restricted | 48,737,288 | 41,628,448 |
| Unrestricted | 61,547,110 | 53,012,857 |
| Total Net Position | $ 145,272,263 | $ 122,401,476 |

**Table A-2**
**Condensed Statement of Changes in Net Position**

| | Year Ended June 30, | |
|---|---|---|
| | **2021** | **2020** |
| Revenues: | | |
| Restricted Intergovernmental Revenues: | | |
| Federal | $ 16,524,435 | $ 7,393,775 |
| State | 42,184,781 | 44,972,298 |
| Medicaid | 347,139,332 | 287,331,336 |
| Other local | 11,853,578 | 12,953,644 |
| Total Revenues | 417,702,126 | 352,651,053 |
| Expenses: | | |
| Administration | 5,331,428 | 4,801,203 |
| Medicaid administration | 40,676,584 | 37,139,300 |
| Contract services | 348,823,327 | 315,448,485 |
| Total Expenses | 394,831,339 | 357,388,988 |
| Change in net position | 22,870,787 | (4,737,935) |
| Net position, beginning | 122,401,476 | 127,139,411 |
| Net position, ending | $ 145,272,263 | $ 122,401,476 |

The Center's net position increased by $22,870,787 as a result of operations. Key elements of this activity are as follows:

In fiscal year 2020-2021, State Single Stream funding decreased by approximately $2.5M from fiscal year 2019-2020. However, as a supplement to the Single Stream funds already provided, the state funded $4.8 of additional single stream specifically to support providers during COVID-19 emergency. 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.
2) Each cost center was reviewed for actual revenues and expenditures to ensure that the Center's expenditures would not exceed appropriations for any cost center.
3) Increase in fund balance appropriation for Medicaid Services, Reinvestment Funding, Tailored Plan Readiness, and COVID-19 Response.

## Capital Asset and Debt Administration

*Capital Assets* – The Center's investment in capital assets as of June 30, 2021 totals $34,987,865 (net of accumulated depreciation). These assets include construction in progress, land, buildings, software and equipment.

During the current year, the Center acquired new assets of $8,238,622. These additions include the 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 building construction in Archdale North Carolina, and Alphind internally developed software. $18,156,685 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, 2021, the Center had no debt outstanding.

**Budget Highlights for the Year Ending June 30, 2022**

The Center's fiscal year budget begins on July 1 and ends on June 30. Highlights for the board-approved $393.4 million fiscal year 2021-2022 Continuation Budget include:

1) Adjustments for changes in the Medicaid Per Member, Per Month rate beginning July 1, 2021,
2) Removal of all one-time state/federal allocations,
3) Budget allocation of county general funding in the amount of $11.5 million to support county outpatient units and,
4) Updating the LME's personnel schedule

In addition, the Center had five project ordinances for fiscal year 2020-2021 totaling $19,468,670. The first project ordinance is for construction of Adult Facility Based Crisis ("FBC") Center in Asheboro, North Carolina. The FBC system of care will include: (1) a 16-bed non-medical unit to provide an alternative to hospitalization for adults experiencing behavioral health crisis; (2) six "observation chairs", providing an observation period for a person to be treated for their illness and their level of care need assessed for up to 23 hours, and (3) the availability of 24/7 routine, urgent, and emergent assessments as well as involuntary commitment evaluations. The project authorization for the new FBC is $5,149,000 of which $5,461,655 has been expended as of June 30, 2021. This project was completed and put into service during FY21.

The second project ordinance is for the Facility Based Crisis Center Richmond County, North Carolina. The FBC system of care will include: (1) a 16-bed non-medical unit to provide an alternative to hospitalization for children experiencing behavioral health crisis; (2) the availability of 24/7 routine, urgent, and emergent assessments as well as involuntary commitment evaluation; and (3) it includes daily outpatient services walk-in crisis clinic. The project authorization for the new FBC is $5,715,412, of which $5,843,495 has been expended as of June 30, 2021. This project was completed and put into service during FY21.

The third ordinance is for construction of Adult Facility Based Crisis ("FBC") Center in Guilford, North Carolina. The FBC system of care will include: (1) a 16-bed non-medical unit to provide an alternative to hospitalization for adults experiencing behavioral health crisis; (2) six "observation chairs", providing an observation period for a person to be treated for their illness and their level of care need assessed for up to 23 hours, and (3) the availability of 24/7 routine, urgent, and emergent assessments as well as involuntary commitment evaluations. The project authorization for the new FBC is $7,024,258 of which $7,447,339 has been expended as of June 30, 2021.

The fourth ordinance is for renovation of administrative office building in Guilford, North Carolina. The office building is being renovated to be the administrative office for staff in Guildford County. This renovation consists of 158 cubicles, plus other offices. To include conference rooms, copy rooms, break area, training space, etc. The renovation also includes adding to the parking lot and new HVAC systems. The project authorization is $1,554,000 of which $2,038,549 has been expended as of June 30, 2021. This project was completed and put into service during FY21.

The fifth ordinance is for in house software development, Alpha+, that replaced the existing portal used by providers to submit claims. The software went live on April 5, 2021 and was put into service.

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, 2021*

| | |
|---|---|
| **ASSETS** | |
| Current Assets: | |
| Cash and cash equivalents | $ 78,155,115 |
| Due from other governments | 3,034,618 |
| Other receivables | 56,145 |
| Prepaid insurance | 2,180,953 |
| Total Current Assets | 83,426,831 |
| Noncurrent Assets: | |
| Restricted cash | 48,737,288 |
| Capital Assets: | |
| Non-depreciable | 8,901,410 |
| Depreciable, net of accumulated depreciation | 26,086,455 |
| Total Capital Assets, Net | 34,987,865 |
| Total Noncurrent Assets | 83,725,153 |
| **Total Assets** | 167,151,984 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Pension deferrals | 5,192,952 |
| Other postemployment benefits deferrals | 349,812 |
| Total Deferred Outflows of Resources | 5,542,764 |
| **LIABILITIES** | |
| Current Liabilities: | |
| Accounts payable and accrued liabilities | 3,310,212 |
| Incurred but not reported - Medicaid claims | 10,868,556 |
| Incurred but not reported - other claims | 417,159 |
| Compensated absences payable | 1,864,455 |
| Total Current Liabilities | 16,460,382 |
| Noncurrent Liabilities: | |
| Net pension liability | 8,401,837 |
| Other postemployment benefits liability | 2,315,120 |
| Total Noncurrent Liabilities | 10,716,957 |
| **Total Liabilities** | 27,177,339 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Other postemployment benefits deferrals | 245,146 |
| Total Deferred Inflows of Resources | 245,146 |
| **NET POSITION** | |
| Investment in capital assets | 34,987,865 |
| Restricted for: | |
| Medicaid risk reserve | 48,737,288 |
| Unrestricted | 61,547,110 |
| **Total Net Position** | $ 145,272,263 |

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, 2021*

| | |
|---|---|
| Operating Revenues: | |
| Restricted Intergovernmental Revenues: | |
| Federal | $ 16,524,435 |
| State | 42,184,781 |
| Medicaid | 347,139,332 |
| Other local revenues | 11,853,578 |
| Operating Revenues | 417,702,126 |
| Operating Expenses: | |
| Administration | 5,331,428 |
| Medicaid Administration: | |
| General | 24,966,521 |
| Mental health/substance abuse | 7,536,262 |
| Developmental disabilities | 8,173,801 |
| Contract Services: | |
| Development disabilities | 9,227,907 |
| Mental health | 33,314,490 |
| Substance abuse | 15,464,162 |
| Medicaid waiver | 290,816,768 |
| Total Operating Expenses | 394,831,339 |
| Change in net position | 22,870,787 |
| Net position, beginning of year | 122,401,476 |
| Net position, end of year | $ 145,272,263 |

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

STATEMENT OF CASH FLOWS

*YEAR ENDED JUNE 30, 2021*

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from third party vendors | $ 417,638,353 |
| Cash payments to suppliers for good and services | (372,117,114) |
| Cash payments to employees for services | (20,787,295) |
| Other cash payments, net | (1,779,108) |
| Net cash flows from operating activities | 22,954,836 |
| **Cash flows from capital and related financing activities:** | |
| Purchase of capital assets | (8,238,622) |
| Net cash flows from capital and related financing activities | (8,238,622) |
| Net decrease in cash and cash equivalents | 14,716,214 |
| Cash and cash equivalents, beginning of year | 112,176,189 |
| Cash and cash equivalents, end of year | $ 126,892,403 |
| **Reconciliation of operating loss to net cash from operating activities:** | |
| Loss from operations | $ 22,870,787 |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | |
| Depreciation | 829,968 |
| Gain on sale of asset | 208,100 |
| Changes in assets and liabilities: | |
| Due from other governments | (63,257) |
| Accounts receivable | (516) |
| Prepaid insurance | (1,960,068) |
| Deferred outflows of resources | 924,861 |
| Accounts payable and accrued liabilities | (238,121) |
| Incurred but not reported - Medicaid | (2,836,661) |
| Incurred but not reported - other | 302,201 |
| Compensated absences payable | 198,065 |
| Net pension liability | 2,306,694 |
| Other post employment liability | 486,820 |
| Deferred inflows of resources | (74,037) |
| Net cash flows from operating activities | $ 22,954,836 |
| **Cash and cash equivalents per statement of net position:** | |
| Unrestricted | $ 78,155,115 |
| Restricted | 48,737,288 |
| Total cash and cash equivalents per statement of net position | $ 126,892,403 |

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, 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 nine 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, 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 that 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 $48,737,288 at June 30, 2021, 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, 2021, with the exception of Medicaid claims where the eligibility is longer, and the liability is not known. IBNR was estimated to be $10,868,556 as of June 30, 2021.

*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 $417,159 as of June 30, 2021.

*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.

*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.

## Note 1—Summary of significant accounting policies (continued)

*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 two items that meet the criterion for this category, 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, 2021.

*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.

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.

## 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 that deposits are properly secured. The organization has no formal policy regarding custodial credit risk for deposits.

At June 30, 2021, the Center's deposits had a carrying amount of $121,056,189 and a bank balance of $121,685,904. 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, 2021 totaled $1,567.

## Note 3—Investments

At June 30, 2021, the Center had $5,834,647 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, 2021. 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 $1.00 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 that the Center may invest in any one issuer. As of June 30, 2021, 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, 2021 were as follows:

| | |
|---|---|
| Medicaid receivable | $ 2,132,780 |
| Other receivables | 901,838 |
| | $ 3,034,618 |

Management has determined that there was not a need to establish an allowance for uncollectible accounts at June 30, 2021.

## Note 5—Capital assets

Capital asset activity for the year ended June 30, 2021 were as follows:

| | Balance July 1, 2020 | Increases | Decreases | Balance June 30, 2021 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 1,460,207 | $ - | $ (7,000) | $ 1,453,207 |
| Construction in progress | 17,365,402 | 8,239,486 | (18,156,685) | 7,448,203 |
| Total capital assets not being depreciated | 18,825,609 | 8,239,486 | (18,163,685) | 8,901,410 |
| Capital assets being depreciated: | | | | |
| Buildings | 12,326,485 | 16,700,892 | (917,911) | 28,109,466 |
| Furniture and other equipment | 4,626,041 | 94,274 | (17,026) | 4,703,289 |
| Software | - | 1,485,870 | - | 1,485,870 |
| Total capital assets being depreciated | 16,952,526 | 18,281,036 | (934,937) | 34,298,625 |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,106,573 | 471,886 | (635,762) | 4,942,697 |
| Furniture and other equipment | 2,911,391 | 283,788 | - | 3,195,179 |
| Software | - | 74,294 | - | 74,294 |
| Total accumulated depreciation | 8,017,964 | 829,968 | (635,762) | 8,212,170 |
| Capital assets being depreciated, net | 8,934,562 | 17,451,068 | (299,175) | 26,086,455 |
| Capital assets, net | $ 27,760,171 | | | $ 34,987,865 |

## Note 6—Payables

Accounts payable, incurred but not reported claims, and other current liabilities at June 30, 2021 were as follows:

| | Vendors | Compensated Absences | Incurred but Not Reported Claims | Total |
|---|---|---|---|---|
| Payables | $ 3,310,212 | $ 1,864,455 | $ 11,285,715 | $ 16,460,382 |

## Note 7—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. The Local Governmental Employees' Retirement System 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 post-retirement 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, 2021 was 10.15% 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 $1,847,400 for the year ended June 30, 2021.

*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, 2021, the Center reported a liability of $8,401,837 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date as of June 30, 2020 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. At June 30, 2020, the Center's proportion was 0.235% which was an increase of 0.012% from its proportion measured at June 30, 2019.

**Note 7—Retirement plan (continued)**

For the year ended June 30, 2021, the Center recognized pension expense of $5,336,045. At June 30, 2021, 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 | $ 1,061,005 | $ - |
| Changes of assumptions | 625,262 | - |
| Net differences between projected and actual earnings on pension plan investments | 1,182,334 | - |
| Changes in proportion and differences between the Center's contributions and proportionate share of contributions | 476,952 | - |
| The Center's contributions subsequent to the measurement date | 1,847,400 | - |
| | $ 5,192,953 | $ - |

$1,847,400 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, | |
|---|---|
| 2022 | $ 1,029,312 |
| 2023 | 1,218,438 |
| 2024 | 747,892 |
| 2025 | 349,911 |
| | $ 3,345,553 |

*Actuarial Assumptions* – The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | 3.50% to 8.10 %, including inflation and productivity factor of 3.50% |
| Investment rate of return | 7.00 %, 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, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

### Note 7—Retirement plan (continued)

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 2019 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 3.00%. All rates of return and inflation are annualized.

*Discount Rate* – The discount rate used to measure the total pension liability was 7.00%. 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.

*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 7.00%, 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 (6.00%) or one-percentage point higher (8.00%) than the current rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|
| The Center's proportionate share of the net pension liability | $ 17,046,416 | $ 8,401,837 | $ 1,217,588 |

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

## Note 8—Other postemployment benefits

*Plan Description and Benefits Provided* – The Center administers a single-employer defined benefit Health Care 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 Health Care Plan consisted of the following at June 30, 2020, the date of the latest actuarial valuation:

| | |
|---|---|
| Retired members | 2 |
| Terminated plan members entitled to but not yet receiving benefits | - |
| Active plan members | 300 |
| | 302 |

*Total OPEB Liability* – The Center's total OPEB liability of $2,315,120 was measured as of June 30, 2020 and was determined by an actuarial valuation as June 30, 2019.

*Actuarial Assumptions and Other Inputs* – The total OPEB liability in the June 30, 2019 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 | 1.00% |
| Wage inflation | 3.50% |
| Salary increases, including wage inflation | 3.50% - 7.75% |
| Municipal Bond Index Rate Prior | |
| Prior Measurement Date | 3.50% |
| Measurement Date | 2.21% |
| Healthcare cost trend rates: | |
| Pre-Medicare | 7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026 |
| Dental | 4.00% |

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.

**Note 8—Other postemployment benefits (continued)**

Changes in the total OPEB liability:

| | Total OPEB Liability |
|---|---|
| Balance at June 30, 2020 | $ 1,828,300 |
| Changes for the year: | |
| Service cost | 144,423 |
| Interest | 68,697 |
| Changes of benefit teams | - |
| Differences between expected and actual experience | 9,823 |
| Changes in assumptions or other inputs | 284,015 |
| Benefit payments | (20,138) |
| Net changes | 486,820 |
| Balance at June 30, 2021 | $ 2,315,120 |

Changes in assumptions and other inputs reflect a change in the discount rate from 3.50% to 2.21%.

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

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

*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 (1.21%) or one-percentage point higher (3.21%) than the current discount rate:

| | 1% Decrease (1.21%) | Discount Rate (2.21%) | 1% Increase (3.21%) |
|---|---|---|---|
| Total OPEB liability | $ 2,562,590 | $ 2,315,120 | $ 2,091,614 |

*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 | $ 1,996,075 | $ 2,315,120 | $ 2,699,208 |

## Note 8—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, 2021, the Center recognized OPEB expense of $221,634. At June 30, 2021, 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 | $ 8,610 | $ 187,750 |
| Changes of assumptions | 308,751 | 57,396 |
| Benefit payments and administrative costs made subsequent to the measurement date | 32,451 | - |
| | $ 349,812 | $ 245,146 |

$32,451 reports as deferred outflows of resources related to OPEB resulting from the Center's contributions subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Years Ending June 30, | |
|---|---|
| 2022 | $ (817) |
| 2023 | (817) |
| 2024 | (817) |
| 2025 | 1,337 |
| 2026 | 11,633 |
| Thereafter | 61,696 |
| | $ 72,215 |

## Note 9—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, 2021 totaled $389,159.

## Note 10—Operating leases

The Center has operating leases for office facilities and certain equipment with various terms. Future minimum lease payments under noncancelable operating leases at June 30, 2021 were as follows:

| Years Ending June 30, | |
|---|---|
| 2022 | $ 180,453 |
| 2023 | 76,499 |
| 2024 | 8,008 |
| 2025 | 8,008 |
| 2026 | - |
| | $ 272,968 |

Lease expense under these operating leases for the year ended June 30, 2021 was $195,253.

## 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.

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, 2020 | $ 114,958 |
| Claims incurred | 4,618,964 |
| Claims paid | (4,733,922) |
| Claims incurred, but not reported at year-end | 417,159 |
| Balance at June 30, 2021 | $ 417,159 |

## 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 that 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.

During 2020, the outbreak of COVID-19 emerged globally. As a result of the continued spread of COVID-19, economic uncertainties have arisen that could negatively impact the Center's revenue and operations for an indeterminable time period. Other financial impacts could occur that are unknown at this time.

## 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, 2021:

| | Balance July 1, 2020 | Increases | Decreases | June 30, 2021 |
|---|---|---|---|---|
| Net Pension Liability | $ 6,095,143 | $ 4,154,094 | $ 1,847,400 | $ 8,401,837 |
| Net OPEB Liability | 1,828,300 | 506,958 | 20,138 | 2,315,120 |
| | $ 7,923,443 | $ 4,661,052 | $ 1,867,538 | $ 10,716,957 |

## 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, and Guilford Counties. During the year ended June 30, 2021, revenues received from these counties amounted to $11,461,000.

## Note 15—Economic dependence

The Center receives approximately 14% of its revenue from state and federal (passed through the state) intergovernmental revenue, and 83% 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—Pending accounting pronouncements

Management has not currently determined what, if any, impact the implementation of the following statement may have on the financial statements of the Center:

GASB Statement 87, *Leases* will be effective for the Center for the year ended June 30, 2022.

## Note 17—Subsequent events

Management has evaluated the subsequent events through October 29, 2021, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. Sandhills was selected by the NC Department of Health and Human Services to serve as a Behavioral Health and Intellectual/Developmental Disability Tailored Plan. Individuals who need certain services to address a serious mental illness, serious emotional disturbance, severe substance use disorder, intellectual/developmental disability or traumatic brain injury may be eligible to enroll in a Behavioral Health I/DD Tailored Plan. These plans will provide the same services as NC Medicaid Standard Plans with additional specialized services to serve individuals with significant behavioral health conditions, including those utilizing 1915(c) Home and Community-Based Services waivers and those utilizing State Funded Services.

As of December 1, 2021, Sandhills Center will add the counties of Davidson and Rockingham to the Center's service area. This will result in increased members and staffing during the fiscal year 21/22.

# 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, 2021*

| | 2021 | 2020 |
|---|---|---|
| Total OPEB Liability: | | |
| Service cost | $ 144,423 | $ 106,396 |
| Interest | 68,697 | 58,834 |
| Changes of benefit terms | - | 268,928 |
| Differences between expected and actual experience | 9,823 | (186,062) |
| Changes of assumptions | 284,015 | 79,406 |
| Benefits payments | (20,138) | (23,087) |
| Net changes in total OPEB liability | 486,820 | 304,415 |
| Total OPEB liability - beginning | 1,828,300 | 1,523,885 |
| Total OPEB liability - ending | $ 2,315,120 | $ 1,828,300 |
| Covered Payroll | $ 18,427,915 | $ 18,125,243 |
| Total OPEB liability as a percentage of covered payroll | 12.56% | 10.09% |

**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 |
|---|---|
| 2020 | 3.50% |
| 2021 | 2.21% |

**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, 2021*

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **Schedule of Proportionate Share of the Net Pension Liability** | | | | |
| Center's proportion of the net pension liability (%) | 0.23512% | 0.22319% | 0.2210% | 0.2169% |
| Center's proportion of the net pension liability ($) | $ 8,401,837 | $ 6,095,143 | $ 5,242,637 | $ 3,312,867 |
| Center's covered-employee payroll | 17,845,521 | 17,087,639 | 15,674,896 | 14,582,699 |
| Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 47.08% | 35.67% | 33.45% | 22.72% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 88.61% | 90.86% | 91.63% | 94.18% |
| **Schedule of Contributions** | | | | |
| Contractually required contribution | $ 1,847,400 | $ 1,596,665 | $ 1,323,815 | $ 1,175,092 |
| Contributions in relation to the contractually required contribution | 1,847,400 | 1,596,665 | 1,323,815 | 1,175,092 |
| Contributions deficiency (excess) | $ - | $ - | $ - | $ - |
| Center's covered-employee payroll | 18,200,961 | $ 17,845,521 | $ 17,087,639 | $ 15,674,896 |
| Contributions as a percentage of covered-employee payroll | 10.15% | 8.95% | 7.75% | 7.50% |

**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 | 12/31/2019 |
| 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* | 7.00% |
| Inflation | 3.00% |
| Salary increases** | 3.50-8.10% |
| Cost-of-living adjustments | None |

* Net of pension plan investment expense, including inflation.

** Including inflation and productivity factor of 3.50%.

# SUPPLEMENTARY INFORMATION

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

MEDICAID BALANCE SHEET

*JUNE 30, 2021*

| | Medicaid Related | Non-Medicaid Related | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 70,313,931 | $ 7,841,184 | $ 78,155,115 |
| Due from other governments | 2,183,606 | 851,012 | 3,034,618 |
| Other receivables | 324,625 | (268,480) | 56,145 |
| Prepaid insurance | - | 2,180,953 | 2,180,953 |
| Total Current Assets | 72,822,162 | 10,604,669 | 83,426,831 |
| Noncurrent Assets: | | | |
| Restricted cash | 48,682,845 | 54,443 | 48,737,288 |
| Capital Assets: | | | |
| Non-depreciable | 1,162,565 | 7,738,845 | 8,901,410 |
| Depreciable, net of accumulated depreciation | 20,886,560 | 5,199,895 | 26,086,455 |
| Total Capital Assets, Net | 22,049,125 | 12,938,740 | 34,987,865 |
| Total Noncurrent Assets | 70,731,970 | 12,993,183 | 83,725,153 |
| **Total Assets** | 143,554,132 | 23,597,852 | 167,151,984 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Pension deferrals | 4,434,211 | 758,741 | 5,192,952 |
| Other postemployment benefits deferrals | - | 349,812 | 349,812 |
| Total Deferred Outflows of Resources | 4,434,211 | 1,108,553 | 5,542,764 |
| **LIABILITIES** | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | 511,038 | 2,799,174 | 3,310,212 |
| Incurred but not reported - medicaid claims | 9,846,335 | 1,022,221 | 10,868,556 |
| Incurred but not reported - other claims | - | 417,159 | 417,159 |
| Compensated absences payable | 1,755,696 | 108,759 | 1,864,455 |
| Total Current Liabilities | 12,113,069 | 4,347,313 | 16,460,382 |
| Noncurrent Liabilities: | | | |
| Net pension liability | 8,401,837 | - | 8,401,837 |
| Other postemployment benefits liability | 367,845 | 1,947,275 | 2,315,120 |
| Total Noncurrent Liabilities | 8,769,682 | 1,947,275 | 10,716,957 |
| **Total Liabilities** | 20,882,751 | 6,294,588 | 27,177,339 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Other postemployment benefits deferrals | - | 245,146 | 245,146 |
| Total Deferred Inflows of Resources | - | 245,146 | 245,146 |
| **NET POSITION** | | | |
| Net investment in capital assets | 22,049,125 | 12,938,740 | 34,987,865 |
| Restricted | 87,222,093 | (38,484,805) | 48,737,288 |
| Unrestricted | 17,834,374 | 43,712,736 | 61,547,110 |
| **Total Net Position** | $ 127,105,592 | $ 18,166,671 | $ 145,272,263 |

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

MEDICAID INCOME STATEMENT

*YEAR ENDED JUNE 30, 2021*

| | Medicaid Related | Non-Medicaid Related | Total |
|---|---|---|---|
| Operating Revenues: | | | |
| Restricted Intergovernmental Revenues: | | | |
| Federal | $ - | $ 16,524,435 | $ 16,524,435 |
| State | - | 42,184,781 | 42,184,781 |
| Medicaid | 347,139,331 | 1 | 347,139,332 |
| Other local revenues | - | 11,853,578 | 11,853,578 |
| Operating Revenues | 347,139,331 | 70,562,795 | 417,702,126 |
| Operating Expenses: | | | |
| Administration | - | 5,331,428 | 5,331,428 |
| Medicaid Administration: | | | |
| General | 27,125,035 | (2,158,514) | 24,966,521 |
| Mental health/substance abuse | 5,490,707 | 2,045,555 | 7,536,262 |
| Developmental disabilities | 8,173,809 | (8) | 8,173,801 |
| Contract Services: | | | |
| Development disabilities | - | 9,227,907 | 9,227,907 |
| Mental health | - | 33,314,490 | 33,314,490 |
| Substance abuse | - | 15,464,162 | 15,464,162 |
| Medicaid waiver | 290,816,023 | 745 | 290,816,768 |
| Total Operating Expenses | 331,605,574 | 63,225,765 | 394,831,339 |
| Transfer of fund balance | 16,684,003 | (16,684,003) | - |
| Operating income (loss) | 32,217,760 | (9,346,973) | 22,870,787 |
| Change in net position | 32,217,760 | (9,346,973) | 22,870,787 |
| Net position, beginning of year | 94,887,832 | 27,513,644 | 122,401,476 |
| Net position, end of year | $ 127,105,592 | $ 18,166,671 | $ 145,272,263 |

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

MEDICAID STATEMENT OF CASH FLOWS

*YEAR ENDED JUNE 30, 2021*

| | Medicaid Related | Non-Medicaid Related | Total |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash received from federal, state, and local agencies | $ 347,033,525 | $ 70,604,828 | $ 417,638,353 |
| Cash payments to suppliers of goods and services | (321,980,613) | (50,136,501) | (372,117,114) |
| Cash payments to employees | (9,456,051) | (11,331,244) | (20,787,295) |
| Other cash payments, net | 16,684,003 | (18,463,111) | (1,779,108) |
| Net cash flows from operating activities | 32,280,864 | (9,326,028) | 22,954,836 |
| **Cash flows from capital and related financing activities:** | | | |
| Acquisition and construction of capital assets | (13,733,311) | 5,494,689 | (8,238,622) |
| Net cash flows from capital and related financing activities | (13,733,311) | 5,494,689 | (8,238,622) |
| Net (decrease) increase in cash and cash equivalents | 18,547,553 | (3,831,339) | 14,716,214 |
| Cash and cash equivalents, beginning of year | 100,449,223 | 11,726,966 | 112,176,189 |
| Cash and cash equivalents, end of year | $ 118,996,776 | $ 7,895,627 | $ 126,892,403 |
| **Reconciliation of operating (loss) income to net cash from operating activities:** | | | |
| Operating (loss) income | $ 32,217,760 | $ (9,346,973) | $ 22,870,787 |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | | | |
| Depreciation | - | 829,968 | 829,968 |
| Gain on sale of asset | - | 208,100 | 208,100 |
| Changes in assets and liabilities: | | | |
| Due from other governments | (122,045) | 58,788 | (63,257) |
| Accounts receivable | 16,239 | (16,755) | (516) |
| Prepaid insurance | - | (1,960,068) | (1,960,068) |
| Deferred outflows of resources | 684,207 | 240,654 | 924,861 |
| Accounts payable and accrued liabilities | (2,949,486) | 2,711,365 | (238,121) |
| Incurred but not reported - Medicaid | - | (2,836,661) | (2,836,661) |
| Incurred but not reported - other | - | 302,201 | 302,201 |
| Compensated absences payable | 127,495 | 70,570 | 198,065 |
| Net pension liability | 2,306,694 | - | 2,306,694 |
| Other post employment liability | - | 486,820 | 486,820 |
| Deferred inflows of resources | - | (74,037) | (74,037) |
| Net cash flows from operating activities | $ 32,280,864 | $ (9,326,028) | $ 22,954,836 |

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

BALANCE SHEET (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

*JUNE 30, 2021*

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 78,155,115 |
| Due from other governments | 3,034,618 |
| Other receivables | 56,145 |
| Prepaid insurance | 2,180,953 |
| Restricted cash | 48,737,288 |
| **Total Assets** | $ 132,164,119 |
| **LIABILITIES** | |
| Accounts payable and accrued liabilities | $ 3,310,212 |
| Incurred but not reported - Medicaid claims | 10,868,556 |
| Incurred but not reported - other claims | 417,159 |
| **Total Liabilities** | 14,595,927 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Unavailable revenues | 460,960 |
| **Total Deferred Inflows of Resources** | 460,960 |
| **FUND BALANCES** | |
| Nonspendable: | |
| Prepaid insurance | 2,180,953 |
| Restricted: | |
| Stabilization by State Statute | 3,649,348 |
| Medicaid Risk Reserve | 48,737,288 |
| Assigned | 28,064,196 |
| Unassigned | 34,475,447 |
| **Total Fund Balances** | 117,107,232 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | $ 132,164,119 |
| **Reconciliation of fund balance as reported in the balance sheet with the statement of net position:** | |
| Total fund balance reported above | $ 117,107,232 |
| 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 | 460,960 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 34,987,865 |
| Deferred outflows of resources related to the pension plan are not reported in the funds | 5,192,952 |
| Deferred outflows of resources related to OPEB are not reported in the funds | 349,812 |
| Deferred inflows of resources related to OPEB are not reported in the funds | (245,146) |
| Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Net pension liability | (8,401,837) |
| Total OPEB liability | (2,315,120) |
| Compensated absences payable | (1,864,455) |
| **Total Net Position** | $ 145,272,263 |

## 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, 2021*

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Revenues: | | | |
| Restricted Intergovernmental Revenues: | | | |
| Federal | $ 21,522,470 | $ 16,524,435 | $ 4,998,035 |
| State | 37,308,777 | 42,184,781 | (4,876,004) |
| Medicaid | 328,724,314 | 347,139,332 | (18,415,018) |
| Other local revenues | 12,156,208 | 11,853,578 | 302,630 |
| Total Revenues | 399,711,769 | 417,702,126 | (17,990,357) |
| Expenditures: | | | |
| Administrative | 5,429,908 | 4,664,436 | 765,472 |
| Medicaid Administration: | | | |
| General | 23,704,173 | 22,454,470 | 1,249,703 |
| Mental health/substance abuse | 7,805,873 | 6,973,313 | 832,560 |
| Developmental disabilities | 8,351,928 | 7,310,556 | 1,041,372 |
| Contract Services: | | | |
| Developmental disabilities | 12,717,165 | 9,227,907 | 3,489,258 |
| Mental health | 38,373,425 | 33,314,490 | 5,058,935 |
| Substance abuse | 18,855,379 | 15,464,162 | 3,391,217 |
| Medicaid waiver | 312,686,427 | 290,816,768 | 21,869,659 |
| Medicaid - other | 15,000 | - | 15,000 |
| Total Expenditures | 427,939,278 | 390,226,102 | 37,713,176 |
| Revenues under expenditures | (28,227,509) | 27,476,024 | (55,703,533) |
| Other Financial Uses: | | | |
| Transfer to Capital Projects Fund | (3,775,563) | (3,775,563) | - |
| Transfer from Capital Projects Fund | 12,443,975 | 12,443,975 | - |
| Fund balance appropriated | 19,559,097 | - | (19,559,097) |
| Net Change in Fund Balance | $ - | 36,144,436 | $ 36,144,436 |
| Fund balance, beginning of year | | 96,976,105 | |
| Fund balance, end of year | | 133,120,541 | |
| A legally budgeted capital projects fund is consolidated into the General Fund for reporting purposes: | | | |
| Excess of sources over expenditures at beginning of year | | 2,077,267 | |
| Transfer from general fund | | 3,775,563 | |
| Expenditures in excess of project authorization | | | |
| Expenditures | | (9,422,164) | |
| Removal of prior year completed project | | (12,443,975) | |
| Fund balance, end of year | | $ 117,107,232 | |

**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) (CONTINUED)

*YEAR ENDED JUNE 30, 2021*

| | |
|---|---|
| **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 | $ 36,144,436 |
| Reconciling Items: | |
| Capital outlay expenditures | 94,274 |
| Depreciation expense | (829,968) |
| Contributions to the pension plan | 1,847,400 |
| Compensated absences payable | (198,065) |
| Pension expense | (4,115,157) |
| OPEB plan expense | (1,403,721) |
| Transfer to capital projects fund | 3,775,563 |
| Removal of prior year completed project | (12,443,975) |
| Change in Net Position | $ 22,870,787 |

**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, 2021*

| | | Actual | | | |
|---|---|---|---|---|---|
| | **Project Authorization** | **Prior Years** | **Current Year** | **Total to Date** | **Variance Favorable (Unfavorable)** |
| Expenditures: | | | | | |
| Capital Improvements: | | | | | |
| Guilford Child Based Facility | $ 7,024,258 | $ 1,854,144 | $ 5,593,195 | $ 7,447,339 | $ (423,081) |
| Walker Avenue Asheboro | 5,149,000 | 5,331,637 | 130,018 | 5,461,655 | (312,655) |
| Richmond County | 5,740,975 | 5,537,853 | 305,642 | 5,843,495 | (102,520) |
| Guilford Porcher Way Renovation | 1,554,000 | 88,782 | 1,949,767 | 2,038,549 | (484,549) |
| Guilford Porcher Facility Building | 3,750,000 | 3,357,193 | - | 3,357,193 | 392,807 |
| Alphind In-House Software | - | 1,195,794 | 260,000 | 1,455,794 | (1,455,794) |
| Total Expenditures | 23,218,233 | 17,365,403 | 8,238,622 | 25,604,025 | (2,385,792) |
| Other Financing Sources: | | | | | |
| Transfer from General Fund | 23,218,233 | 19,442,670 | 3,775,563 | 23,218,233 | - |
| Transfer to General Fund | (12,443,975) | (15,511,259) | | (18,156,686) | 5,712,711 |
| Excess of other financing sources over (under) expenditures | $ - | $ 2,077,267 | $ (4,463,059) | $ (2,385,792) | $ (2,385,792) |

# COMPLIANCE SECTION

Cherry Bekaert LLP
CPAs & Advisors

**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, 2021, 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 29, 2021.

## 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.

## 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 29, 2021

Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance; with 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 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 described 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 each of the Center's major federal programs for the year ended June 30, 2021. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

## Management's Responsibility

Management is responsible for compliance with the Federal and State statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

## Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

## Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended June 30, 2021.

## Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

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 29, 2021

Cherry Bekaert LLP
CPAs & Advisors

# 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

We have audited the Sandhills Center for Mental Health, Developmental Disabilities and Substance Abuse Services' (the "Center") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Center's major state programs for the year ended June 30, 2021. The Center's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

## Management's Responsibility

Management is responsible for compliance with the Federal and State statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

## Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administration 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. Those standards, the Uniform Guidance and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Center's compliance.

## Opinion on Each Major State Program

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 each of its major state programs for the year ended June 30, 2021.

## Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a 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 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 29, 2021

## 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 | CFDA Number |
|---|---|
| Opioid STR | 93.788 |
| Coronavirus Relief Fund | 21.019 |

| | | |
|---|---|---|
| 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
Alcohol Drug Abuse Treatment Center (ADATC)
3 Way / Crisis Services – Local Psych Patient
TCLI – Mental Health

**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.

**Finding 2020-001**
Status: corrected.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

*YEAR ENDED JUNE 30, 2021*

| Program Name | CFDA 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 | $ 869,689 | $ - |
| State Targeted Response to the Opioid Crisis Grants | 93.788 | 1,202,697 | - |
| Federal Emergency Management Agency (FEMA) - Assistance Listing Crisis Counseling | 97.032 | 162,715 | - |
| Social Services Black Grant - Community-Based Program - Mental Health, Developmental Disabilities, Substance Abuse | 93.667 | 453,538 | - |
| Block Grant for Prevention and Treatment of Substance Abuse - Community-Based Program - Substance Abuse | 93.959 | 4,114,966 | - |
| Coronavirus Relief Fund | 21.019 | 8,960,901 | - |
| Promoting Integration of Primary and Behavioral Healthcare | 93.243 | 94,267 | - |
| Total U.S. Department of Health and Human Services | | 15,858,773 | - |
| Total Federal Awards and State Matches | | 15,858,773 | - |

*YEAR ENDED JUNE 30, 2021*

| Program Name | CFDA 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 | $ - | $ 23,724,354 |
| Multidisciplinary Evaluation | N/A | - | 2,300 |
| DOJ Housing | N/A | - | 19,742 |
| DOJ Support Employment | N/A | - | 383,620 |
| Crisis Services - Local Psych Inpatient | N/A | - | 2,996,087 |
| ADATC (76%) - Hospital Day Beds | N/A | - | 3,089,755 |
| Traumatic Brain Injury | N/A | - | 105,755 |
| TCLI CLA | N/A | - | 482,920 |
| TCLI TYSR | N/A | - | 155,943 |
| TCLI Subsidy Administrative Staffing | N/A | - | 90,000 |
| State Disability Rights 100% State | N/A | - | 79,253 |
| State Disability Rights NADD | N/A | - | 1,250 |
| TCLI Bridge Housing | N/A | - | 133,455 |
| TCLI Diversion | N/A | - | 100,276 |
| TCLI Transition Coordinators | N/A | - | 90,000 |
| TCLI-MH Services | N/A | - | 514,128 |
| Total Division of Mental Health, Developmental Disabilities and Substance Abuse Services | | - | 31,968,838 |
| Total State Awards | | - | 31,968,838 |
| **Total Federal Awards and State Awards** | | $ 15,858,773 | $ 31,968,838 |

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, 2021. 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.