SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services
Sylva, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the Organization), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Organization as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-10, the other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 37-38, and the Local Government Employees' Retirement System Schedule of Proportionate Share of Net Pension Asset and Schedule of Contributions, on pages 39 and 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Organization. The supplemental schedules for NC Division of Medical Assistance reporting 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*, are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules for NC Division of Medical Assistance reporting 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, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
October 27, 2016

Management’s Discussion and Analysis

Management's Discussion and Analysis (MD&A)

The management of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the Organization) offers readers of the Organization's financial statements this narrative overview and analysis of the Organization's financial activities for the fiscal year ended (FYE) June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Organization's financial statements, which follow this narrative.

Financial Highlights

- The Organization's net position increased by a total of $1,029,537. An amount of $6,258,689 of this increase was the funding from the Division of Medical Assistance for the two (2) percent Medicaid risk reserve and the interest earned on the restricted cash.
- Net investment in capital assets increased by $126,520 (or 3.31%) as compared to the previous year's end.
- Unrestricted net position decreased by $5,355,672 to $72,504,587 during the fiscal year ended June 30, 2016. The key contributing factor for this decrease was a result of state legislature's new requirement in the fiscal year of a single stream replacement requirement (originally $14,950,588, with a restoration of $4,047,673, totaling $10,902,915 net) and a state portion of risk reserve contribution requirement ($2,325,656).
- The business-type activity operating revenues were $385,480,140 for the fiscal year ended June 30, 2016.
- Total operating expenses of all the Organization's programs were $384,671,717 during the fiscal year ended June 30, 2016.

Overview of the Financial Statements

The Organization's basic financial statements consist of three components: 1) the MD&A, 2) fund financial statements, and 3) notes to the financial statements. Because the Organization is a special-purpose government engaged in business-type activities only, the financial statements are presented in accordance with paragraph 138 of GASB Statement No. 34. In addition to the financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Organization. In addition to the management's discussion and analysis, management has prepared the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Overview of the Organization

The Organization is an Area Authority or multi-county political subdivision of the state of North Carolina operating in accordance with North Carolina General Statute 122C. The Organization's primary mission is to manage a publicly funded health care system which addresses the mental health, substance use and intellectual and developmentally disability needs of citizens in the twenty-three county catchment area. The twenty-three county catchment area comprises the counties of Alexander, Alleghany, Ashe, Avery, Buncombe, Caldwell, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, McDowell, Mitchell, Polk, Rutherford, Swain, Transylvania, Watauga, Wilkes and Yancey.

Effective July 1, 2012, the Organization began operating under a Medicaid 1915 (b)(c) waiver with the Organization bearing the financial risk. The Organization's operations are funded primarily through Medicaid waiver funds, as well as Federal and state funds from the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (DMH/DD/SAS).

Fund Financial Statements

The financial statements are presented on the fund basis. The fund financial statements provide a more detailed look at the Organization's most significant activities by focusing on the individual activities of the major funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Organization, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance, or non-compliance, with finance-related legal requirements, such as the General Statutes (G.S.), the Organization's budget ordinance, or requirements under the Medicaid waivers. The focus is now on the activities of the major funds, and not on the type of fund. The Organization maintains one fund based on its activities as required and for accountability and control. The fund is an enterprise fund which uses the full accrual basis of accounting and accounts for the Organization's activities in a manner similar to a for-profit business.

The Organization adopts an annual budget as required by G.S. 159-42(c). The budget is a legally adopted document that incorporates input from the citizens and the management of the Organization and the decisions of the Board about which services to provide and how to pay for them. The budgetary statements demonstrate how well the Organization complied with the budget ordinance and whether or not the Organization succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statements use the budgetary basis of accounting and are presented using the same format, language, and classifications as the legal budget document. The budgetary statements are presented as supplementary information to demonstrate compliance with applicable state laws. To account for the difference between the budgetary basis of accounting and the full accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Notes to the Financial Statements

The next section of the financial statements is the notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are on pages 16-35. After the notes, supplemental information is provided to show details about the Organization's post-employment benefits.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information required by North Carolina general statutes.

Statements of Net Position

A summary of the Organization's Statements of Net Position at June 30, 2016 and 2015 is presented in Table A-1.

Table A-1
Condensed Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Current Assets	$ 108,012,376	$ 110,724,325
Restricted Cash	24,877,639	18,618,950
Pension Asset	-	1,747,654
Capital Assets	3,330,239	3,203,719
Total Assets	136,220,254	134,294,648
Deferred Outflows of Resources	3,259,690	2,980,160
Total Assets and Deferred Outflows of Resources	$ 139,479,944	$ 137,274,808
Current Liabilities	$ 33,510,536	$ 31,272,857
Pension Liability	1,621,946	-
Long-Term Liabilities	2,791,986	2,059,562
Total Liabilities	37,924,468	33,332,419
Deferred Inflows of Resources	843,011	4,259,461
Net Position		
Net Investment in Capital Assets	3,330,239	3,203,719
Restricted	24,877,639	18,618,950
Unrestricted Net Position	72,504,587	77,860,259
Total Net Position	100,712,465	99,682,928
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 139,479,944	$ 137,274,808

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Organization exceeded liabilities by $98,295,786 as of June 30, 2016. The Organization uses unrestricted cash to pay providers of services and to manage risk associated with the capitation payments under the Medicaid waivers.

An additional portion of the Organization's net position represents resources that are subject to external restrictions on how they may be used. An amount of 72.0% of the total fund balance is unrestricted while 24.7% of net position is restricted by the Medicaid (b)(c) waiver contract. The remaining balance represents the net investment in fixed assets.

Statements of Revenues, Expenses, and Changes in Net Position

While the Statements of Revenues, Expenses and Changes in Net Position show the change in net position, it also provides answers to the nature and source of these changes.

Table A-2
Condensed Statements of Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Revenues		
Intergovernmental:		
Local	$ 2,934,598	$ 2,939,599
Federal	7,336,586	7,040,660
State	57,678,880	55,338,806
Medicaid	314,073,589	305,331,457
Other Income	3,456,487	2,181,792
Total Revenues	385,480,140	372,832,314
Expenses		
Personnel	31,350,825	28,866,091
Professional Services	3,620,408	2,995,381
Supplies	228,541	320,880
Current Obligations and Services	3,301,254	2,861,025
Fixed Charges and Expenses	5,295,160	4,315,180
Capital Outlay	2,009,193	677,219
Depreciation	577,099	457,986
Contracts and Grants	338,289,237	308,989,462
Total Expenses	384,671,717	349,483,224
Nonoperating Income (Loss)		
Loss on Disposal of Capital Assets	(8,726)	(122,939)
Interest Income	229,840	154,678
Total Nonoperating Income	221,114	31,739
Revenues Over Expenses	1,029,537	23,380,829
Contributed Capital	-	742,700
Increase in Net Position	1,029,537	24,123,529
Net Position - Beginning of Year	99,682,928	75,559,399
Net Position - End of Year	$ 100,712,465	$ 99,682,928

Capital Asset and Debt Administration

The Organization's investment in capital assets as of June 30, 2016 and 2015, totals $3,330,239 and $3,203,719 (net of accumulated depreciation), respectively, as shown in Table A-3 below. These assets include land and assets in process (which are not depreciated), buildings, leasehold improvements, furniture and other equipment, computer equipment and vehicles. Capital assets increased during the year with additions exceeding depreciation expense.

Table A-3
Capital Assets
June 30, 2016 and 2015

	2016	2015
In Process	$ 206,372	$ 196,578
Land	655,870	655,870
Buildings	456,327	484,964
Leasehold Improvements	688,176	822,533
Vehicles	46,762	25,656
Office Furniture and Equipment	127,137	204,867
Computer Equipment	1,149,595	813,251
Total Capital Assets	$ 3,330,239	$ 3,203,719

Additional information on the Organization's capital assets can be found in Note 2 of the Basic Financial Statements.

At June 30, 2016 and 2015, the Organization had no outstanding debt associated with these capital assets.

Economic and Other Factors

A number of economic factors currently affect the financial and operational performance of health care entities and the Organization including the following:

Restructuring of Mental Health Services in North Carolina.

A major restructuring of the management and delivery systems of mental health, developmental disabilities, and substance abuse services continues in the state of North Carolina. Significant changes in funding and operations continue to take place as a result of this reform.

Other Factors for the Year Ended June 30, 2016:

a. The Organization is an Area Authority operating as a Local Management Entity in the State of North Carolina. Effective July 1, 2012, the Organization began operating under a Medicaid 1915 (b)(c) waiver, assuming management of Medicaid funded behavioral health and intellectual/developmental disability services for Medicaid enrollees in the Organization's 15 county catchment area.

b. On May 20, 2013, the Organization entered into a management agreement with Western Highlands Area Authority (Western Highlands) to provide management and oversight of Western Highlands and its respective eight county catchment area. This was a result of the Department of Health and Human Services (DHHS) notifying Western Highlands that its contracts would be terminated without cause effective July 31, 2013. The Organization worked in partnership with DHHS, Western Highlands, Consumer and Family Advisory Council, providers, community stakeholders, and others to ensure a smooth transition of consumer services and all operations. As of October 1, 2013, all operations of Western Highlands had transitioned to the Organization.

Finance Contact

The Organization's financial statements are designed to present users with a general overview of the Organization's finances and to demonstrate the Organization's accountability. If you have any questions about the report or need additional financial information, please contact Fred Nirdé, Chief Financial Officer, Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services, 200 Ridgefield Court, Asheville, North Carolina, 28806.

Basic Financial Statements

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SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS	
Cash and Cash Equivalents	$ 95,333,876
Accounts Receivable, Net	11,415,538
Prepaid Expenses	1,214,837
Other Assets	48,125
Total Current Assets	108,012,376
NON-CURRENT ASSETS	
Restricted Cash and Cash Equivalents	24,877,639
Capital Assets (Net of Accumulated Depreciation)	3,330,239
Total Noncurrent Assets	28,207,878
Total Assets	136,220,254
DEFERRED OUTFLOWS OF RESOURCES	3,259,690
Total Assets and Deferred Outflows of Resources	$ 139,479,944

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES	
Accounts Payable and Other Current Liabilities	$ 17,231,875
Liability for Claims Incurred, but not Reported	15,165,180
Deferred Revenue	888,481
Compensated Absences - Current Portion	225,000
Total Current Liabilities	33,510,536
LONG-TERM LIABILITIES	
Other Postemployment Benefits	716,809
Pension Liability	1,621,946
Deferred Lease Liability	112,560
Compensated Absences - Long-Term	1,962,617
Total Liabilities	37,924,468
DEFERRED INFLOWS OF RESOURCES	843,011
NET POSITION	
Net Investment in Capital Assets	3,330,239
Restricted:	
Medicaid Risk Reserve	24,877,639
Unrestricted	72,504,587
Total Net Position	100,712,465
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 139,479,944

See accompanying Notes to Financial Statements.

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Intergovernmental:	
Local	$ 2,934,598
Federal	7,336,586
State	57,678,880
Medicaid	314,073,589
Other Income	3,456,487
Total Revenues	385,480,140
EXPENSES	
Personnel	31,350,825
Professional Services	3,620,408
Supplies and Materials	228,541
Current Obligations and Services	3,301,254
Fixed Charges and Expenses	5,295,160
Capital Outlay	2,009,193
Depreciation	577,099
Contracts and Grants	338,289,237
Total Expenses	384,671,717
Operating Income	808,423
NONOPERATING INCOME (LOSS)	
Loss on Sale of Capital Assets	(8,726)
Interest Income	229,840
Total Nonoperating Income	221,114
Increase in Net Position	1,029,537
NET POSITION - BEGINNING OF YEAR	99,682,928
NET POSITION - END OF YEAR	$ 100,712,465

See accompanying Notes to Financial Statements.

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Federal, State, and Local Agencies	$ 377,449,451
Payments to Suppliers	(14,398,276)
Payments to Employees	(31,197,913)
Payments for Contracted Services	(336,940,039)
Other Receipts and Payments, Net	3,485,228
Net Cash Used in Operating Activities	(1,601,549)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(712,345)
Net Cash Used in Capital and Related Financing Activities	(712,345)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	229,840
Net Cash Provided by Investing Activities	229,840
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,084,054)
Cash and Cash Equivalents - Beginning of Year	122,295,569
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 120,211,515
Cash and Cash Equivalents	$ 95,333,876
Restricted Cash and Cash Equivalents	24,877,639
Total Cash and Cash Equivalents	$ 120,211,515
Reconciliation of operating income to net cash provided from operating activities:	
Operating Income	$ 808,423
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	577,099
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(5,462,683)
Increase in Prepaid Expenses and Other Assets	(168,111)
Increase in Pension Related Accounts	(326,380)
Increase in Other Postemployment Benefits Liability	196,852
Increase in Accounts Payable and Accrued Expenses	1,349,198
Increase in Deferred Revenue	888,481
Increase in Deferred Lease Liability	56,280
Increase in Compensated Absences	479,292
Net Cash Used in Operating Activities	$ (1,601,549)

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the Organization) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Organization is a local management entity (LME) and managed care organization (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 Alexander, Alleghany, Ashe, Avery, Buncombe, Caldwell, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, McDowell, Mitchell, Polk, Rutherford, Swain, Transylvania, Watauga, Wilkes and Yancey counties. The services include reviewing and evaluating the area needs and programs in mental health, mental impairment, alcoholism, drug dependency 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 Organization, which is governed by a twenty-one member board of directors, 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 Organization has no component units, which under generally accepted accounting principles are legally separate entities for which the Organization is financially accountable.

B. Basis of Presentation, Fund Accounting

The accounts of the Organization are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The Organization accounts for its operations as an enterprise fund. An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Fund Accounting (Continued)

The *Enterprise Fund* is the major operating fund of the Organization which accounts for all activity. The Enterprise Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization 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. Activity related to the internal service fund of the Organization has been presented with the major operating fund for reporting purposes. The internal service fund was used in the past by the Organization to account for health and dental insurance to employees and eligible retirees.

Amounts reported as revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Intergovernmental revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

All funds of the Organization are maintained on the modified accrual basis during the year; however, the financial statements for the Organization have been reported on the accrual basis. Under this basis, revenues are recorded when earned and expenses are recorded when incurred. In converting from the modified accrual basis to the full accrual basis, the changes required may include adjustments for depreciation, capital outlay, compensated absences, and other postemployment benefits.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Data

The Organization maintains budgetary controls over all funds, as required by the North Carolina General Statutes. An annual budget is adopted for the Enterprise Fund. 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 functional level for all annually budgeted funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than $5,000. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. 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. The budget was prepared on the modified accrual basis of accounting. The budget presented in these statements is the budget ordinance amended through June 30, 2016.

D. Assets, Liabilities, and Net Position

1. Deposits and Investments

All deposits of the Organization are made in board-designated official depositories and are secured as required by G.S. 159-31. The Organization may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Organization 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 Organization 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 Organization; obligations of certain non-guaranteed Federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Organization's investments are reported at fair value. The NCCMT Cash Portfolio, an SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Organization considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

Restricted cash consists of cash required to be set aside in a separate account by the Medicaid waiver.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position (Continued)

3. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. 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.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

5. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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 Organization are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Leasehold Improvements	5-20
Vehicles	4-5
Office Furniture	5-10
Computer Equipment	3-5

6. Long-Term Obligations

Long-term obligations are reported as liabilities and classified as short-term or long-term depending on their respective maturities.

7. Compensated Absences

The vacation policy of the Organization provides for the accumulation of up to two hundred and forty (240) hours earned vacation leave with such leave being fully vested when earned. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current portion in the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position (Continued)

7. Compensated Absences (Continued)

The sick leave policy of the Organization provides 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. Since the Organization has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

8. Deferred Rent

Rent expenses are reported on a straight-line basis. Differences between monthly rent expenses and rent payments are recorded as a deferred rent liability and adjustment to straight-line is amortized over the life of the lease term. The reported liability relates to the office building in Sylva, NC.

9. Pension Plans

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 Governmental 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 member contributions are recognized in the period in which the contributions are due. The Organization's employer contributions are recognized when due and the Organization 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.

10. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate selection for deferred outflows of resources. This separate financial statements 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 Organization has two items that meet this criterion - contributions made to the pension plan in the 2016 fiscal year and changes in proportion and differences between the Organization's contributions and proportionate share of contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements 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 Organization has two items that meet this criterion – differences between projected and actual earnings on pension plan investments and differences between expected and actual experience.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position (Continued)

11. Net Position

Net position is classified into three parts: net investment in capital assets, restricted, and unrestricted. Unrestricted net position includes the portion of net position that bears no restriction as to use or purpose. Net investment in capital assets includes resources invested in capital assets. Restricted net position includes revenue resources that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law. Amounts restricted for the Medicaid Risk Reserve include the portion of net position that is restricted by the Medicaid 1915 b/c waiver.

NOTE 2 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Cash and Cash Equivalents

All of the Organization’s deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the Federal Depository Insurance coverage level are collateralized with securities held by the Organization in its 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 Organization, these deposits are considered to be held by their agents in the entity’s 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 Organization or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Organization under the Pooling Method, the potential exists for undercollaterization, 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 Organization has no formal policy regarding custodial credit risks 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.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Cash and Cash Equivalents (Continued)

At June 30, 2016, the Organization's deposits had a carrying amount of $105,915,867 and a bank balance of $107,046,022. Of the bank balance, $500,000 was covered by Federal Depository Insurance; $106,546,022 in interest bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2016, the Organization had $1,350 cash on hand.

2. Investments

The Organization measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices for identical investments in active markets;
Level 2: Observable inputs other than quoted market prices; and,
Level 3: Unobservable inputs.

At June 30, 2016, the Organization had the following investments, which are included within cash and cash equivalents on the Statement of Net Position, measured at fair value:

	Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Money Markets	$ 14,295,648	$ 14,295,648	$ -	$ -
Total Investments by Fair Value Level	$ 14,295,648	$ 14,295,648	$ -	$ -

Interest Rate Risk: The Organization has no policy on interest rate risk.

Custodial Credit Risk: The Organization has no policy on custodial credit risk.

Credit Risk: The Organization’s investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

At June 30, 2016, the Organization's investments and maturities are as follows:

	Fair Value	Less than 6 Months	6-12 Months	1-3 Years
NC Capital Management Trust	$ 14,295,648	$ 14,295,648	N/A	N/A
	$ 14,295,648	$ 14,295,648	$ -	$ -

*Because the NC Capital Management Trust Term Portfolio had a duration of 0.4 years, it was presented as an investment with a maturity of less than 6 months.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

Receivables at June 30, 2016, were as follows:

	Other Governments	Other Providers	Total
General	$ 189,576	$ 11,441,109	$ 11,630,685
Less: Allowance for Doubtful Accounts	-	(215,147)	(215,147)
Total	$ 189,576	$ 11,225,962	$ 11,415,538

4. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	$ 655,870	$ -	$ -	$ 655,870
Construction in Progress	196,578	9,794	-	206,372
Total Capital Assets not Being Depreciated	852,448	9,794	-	862,242
Capital Assets Being Depreciated:				
Buildings	546,464	-	-	546,464
Vehicles	26,202	29,500	-	55,702
Computer Equipment	3,030,479	637,250	-	3,667,729
Office Furniture	629,943	-	13,778	616,165
Leasehold Improvements	1,010,947	35,801	-	1,046,748
Total Capital Assets Being Depreciated	5,244,035	702,551	13,778	5,932,808
Less: Accumulated Depreciation for:				
Buildings	61,500	28,637	-	90,137
Vehicles	546	8,394	-	8,940
Computer Equipment	2,217,228	300,906	-	2,518,134
Office Furniture	425,076	69,004	5,052	489,028
Leasehold Improvements	188,414	170,158	-	358,572
Total Accumulated Depreciation	2,892,764	577,099	5,052	3,464,811
Capital Assets, Net	$ 3,203,719	$ 135,246	$ 8,726	$ 3,330,239

In addition, the Organization acquired $530,190 of minor capital assets that were below the capitalization threshold of $5,000.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Payables

Accounts payable, incurred but not reported claims and other current liabilities at June 30, 2016, were as follows:

	Vendors	Accrued Wages and Benefits	Incurred but not Reported Claims	Total
Payables	$ 14,046,108	$ 3,185,767	$ 15,165,180	$ 32,397,055
Total	$ 14,046,108	$ 3,185,767	$ 15,165,180	$ 32,397,055

2. Pension Plan Obligations, Other Employment Benefits, and Other Post Employment Benefits

a. Retirement Plan

Plan Description. The Organization 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 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 Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR 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, 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.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

a. Retirement Plan (Continued)

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 Organization's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Organization's contractually required contribution rate for the year ended June 30, 2016, was 6.67% 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 Organization were approximately $1,673,000 for the year ended June 30, 2016.

At June 30, 2016, the Organization reported a liability of approximately $1,622,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Organization's proportion of the net pension liability was based on a projection of the Organization's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Organization's proportion was 0.36%.

For the year ended June 30, 2016, the Organization recognized pension expense of $1,347,085. At June 30, 2016, the Organization 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	$ -	$ 381,249
Net difference between projected and actual earnings on pension plan investments	-	461,762
Changes in proportion and differences between Organization contributions and proportionate share of contributions	1,586,224	-
Organization contributions subsequent to the measurement date	1,673,466	-
Total	$ 3,259,690	$ 843,011

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

a. Retirement Plan (Continued)

Deferred outflows of resources of approximately $1,673,000 resulting from the Organization's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,		
2017	$	(45,600)
2018		(45,600)
2019		(48,569)
2020		882,982
	$	743,213

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, 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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

a. 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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

a. Retirement Plan (Continued)

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. 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 Organization's proportionate share of the net pension asset to changes in the discount rate. The following presents the Organization's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Organization'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 (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Organization's proportionate share of the net pension liability (asset)	$ 11,310,028	$ 1,621,946	$ (6,540,056)

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 (CAFR) for the State of North Carolina.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

b. Other Postemployment Benefits

*Plan Description***.** The Organization administers a defined benefit Employment Benefit Fund (EBF). As of September 2004, Organization employees who retire and draw benefits from the Local Government Employees' Retirement System (LGERS) have the ability to continue their health and dental coverage under the Organization's EBF. The Organization will provide a percentage of the cost of coverage based on the number of years of service and the employee's age at the time of retirement. The applicable percentage of total cost to be paid by the Organization is listed in the following tables.

Employees With at Least 20 Years of Service at
Smoky Mountain Center and Receiving LGERS Benefits

Retirement Age	Organization Contribution to Health and/or Dental Costs
60 - 64	100%
59	83%
58	71%
57	62%
56	55%
55	50%
54	45%
53	41%
52	38%
51	35%
50	33%

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

b. Other Postemployment Benefits (Continued)

Employees With at Least 15 Years of Service at Smoky Mountain Center and Receiving LGERS Benefits

Retirement Age	Organization Contribution to Health and/or Dental Costs
60 - 64	50%
59	41%
58	35%
57	31%
56	27%
55	25%
54	22%
53	20%
52	19%
51	17%
50	16%

Coverage may continue for the retiree until the retiree becomes entitled to Medicare benefits or reaches the age of sixty-five, whichever comes first. Also the Organization's retirees can purchase coverage for their dependents at the Organization's group rates. The Organization may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the Plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Active plan members	467
Retirees and dependents receiving benefits	5
Total	472

Funding Policy. The Organization pays the cost of coverage for the health care benefits paid to qualified retirees under a Board resolution that can be amended by the Board. The Organization has chosen to fund the health care benefits on a pay as you go basis.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

b. Other Postemployment Benefits (Continued)

The current ARC rate is 1.0% of annual covered payroll. For the current year, the Organization contributed $45,314, or 0.18% of annual covered payroll. The Organization obtains insurance through private insurers for health care coverage. The Organization is not required to make contributions at a specified percentage of covered payroll. Contributions made by retired employees, which includes dependent coverage, totaled $18,462 in the year ended June 30, 2016.

Summary of Significant Accounting Policies. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Contributions are recognized when due, and the Organization will provide the contributions to the Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each 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. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price. Administration costs of the Plan are financed through investment earnings.

Annual OPEB Cost and Net OPEB Obligation. The Organization's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Organization's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Organization's net OPEB obligation for the postemployment health care benefits:

Annual Required Contribution	$ 251,109
Interest on Net OPEB Obligation	20,798
Adjustments to Annual Required Contribution	(29,741)
Annual OPEB Cost	242,166
Contributions Made	(45,314)
Increase in Net OPEB Obligation	196,852
Net OPEB Obligation, Beginning of Year	519,957
Net OPEB Obligation, End of Year	$ 716,809

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

b. Other Postemployment Benefits (Continued)

The Organization's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for 2016 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB (Asset)/ Obligation
2010	$ 153,800	64.00%	$ 110,041
2011	153,800	56.00%	168,086
2012	124,872	99.00%	154,415
2013	124,872	24.37%	239,371
2014	197,208	28.86%	379,664
2015	197,208	28.86%	519,957
2016	242,166	18.71%	716,809

Fund Status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $966,754 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $966,754. The covered payroll (annual payroll of active employees covered by the plan) was $24,821,723 and the ratio of the UAAL to the covered payroll was 3.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing, over time, relative to the actuarial accrued liabilities for benefits.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)

b. Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. 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.

In the June 30, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date and an annual medical cost of 8 percent annually with a trend decrease of 0.5 percent annually until an ultimate rate of 5 percent is reached. The dental cost trend increase of 5.00 percent was assumed. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at June 30, 2016, was 20 years.

c. Other Employment Benefits

The Organization has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of $25,000 and will not exceed $50,000. All death benefit payments are made from the Death Benefit Plan. Smoky Mountain Center for Mental Health, Development Disabilities, and Substance Abuse Services has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount. The Organization considers these contributions to be immaterial.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

3. Risk Management

The Organization is exposed to various risks of losses related to torts; malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial insurance to cover substantially all risks of loss. The Organization obtains commercial general liability and professional liability coverage of $1,000,000 per occurrence subject to a $3,000,000 limit, liability and collision insurance coverage on vehicles of $1,000,000 per occurrence, and workers' compensation coverage subject to a limit of $1,000,000.

The Organization does not carry flood insurance as there are no properties located within areas designated as flood areas.

The Organization carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159.29, the Organization's employees that have access to $100 or more at a given time of the Organization's funds are performance bonded through a commercial surety bond. The Chief Executive Officer and the Chief Finance Officer are individually bonded for $250,000.

4. Contingent Liabilities

From time to time, the Organization 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 Organization's financial position or results of operations.

5. Long-Term Obligations

As of June 30, 2016, the long-term obligations of the Organization consisted of the following:

	Balance July 1, 2015	Net Increase	Balance June 30, 2016	Amounts Due within One Year
Compensated Absences	$ 1,708,325	$ 479,292	$ 2,187,617	$ 225,000

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

NOTE 3 SUMMARY DISCLOSURES OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Non-Cancellable Operating Leases

The Organization leases certain operating facilities under non-cancellable operating leases. Future lease payments due under these leases subsequent to June 30, 2016 are as follows:

Year Ending June 30,	Amount
2017	$ 941,640
2018	679,897
2019	679,897
2020	339,949
	$ 2,641,383

Total rent expense for all operating leases amounted to $1,036,289 for the year ended June 30, 2016.

NOTE 4 SUBSEQUENT EVENTS

Subsequent to year end, the Organization began the process to legally change its name from Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services to Vaya Health. As of the date of the audited financial statements, the Organization has begun doing business as Vaya Health, however, the legal name change will become effective on January 1, 2017. The name change is not expected to have any impact on the Organization’s contracts with State agencies or providers.

REQUIRED SUPPLEMENTARY FINANCIAL DATA
(ADDITIONAL INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD)

- **SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS**
- **SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS**
- **LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM - PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**
- **LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM - CONTRIBUTIONS**

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2009	$ -	$ 923,900	$ 923,900	0.00%	$ 9,054,000	10.2%
6/30/2012	-	778,767	778,767	0.00%	9,723,728	8.0%
6/30/2014	-	994,739	994,739	0.00%	16,770,810	5.9%
6/30/2016	-	966,754	966,754	0.00%	24,821,723	3.9%

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	$ 153,800	64.00%
2011	153,800	56.00%
2012	124,872	108.63%
2013	124,872	21.93%
2014	201,325	28.27%
2015	201,325	28.27%
2016	251,109	18.05%

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
YEARS ENDED JUNE 30, 2016 AND 2015

Local Government Employees' Retirement System

	2016*	2015*
Organization's proportion of the net pension (asset) liability (%)	0.361400%	-0.296340%
Organization's proportion of the net pension (asset) liability ($)	$ 1,621,946	$ (1,747,654)
Organization's covered-employee payroll	24,821,723	22,101,861
Organization's proportionate share of the net pension asset as a percentage of its covered-employee payroll	6.53%	-7.91%
Plan fiduciary net position as a percentage of the total pension asset**	98.09%	102.64%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

**This will be the same percentage for all participant employers in the LGERS plan.

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
CONTRIBUTIONS
YEARS ENDED JUNE 30, 2016 AND 2015

Local Government Employees' Retirement System

	2016	2015
Contractually required contribution	$ 1,655,609	$ 1,562,643
Contributions in relation to the contractually required contribution	1,673,466	1,562,643
Contribution deficiency (excess)	$ (17,857)	$ -
Organization's covered-employee payroll	24,821,723	22,101,861
Contributions as a percentage of covered-employee payroll	6.67%	7.07%

SUPPLEMENTAL SCHEDULES
FOR
NC DIVISION OF MEDICAL ASSISTANCE REPORTING

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SUPPLEMENTAL SCHEDULE
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS
JUNE 30, 2016

ASSETS	
Cash and Cash Equivalents	$ 95,333,876
Restricted Cash and Cash Equivalents	24,877,639
Accounts Receivable, Net of Allowance for Uncollectible Accounts and Contractual Allowances	11,415,538
Prepaid Expenses and Deposits	1,214,837
Other Assets	48,125
Total Assets	$ 132,890,015
LIABILITIES	
Accounts Payable	$ 14,046,108
Accrued Expenses	3,185,767
Liability for Claims Incurred, but not Reported	15,165,180
Total Liabilities	32,397,055
FUND BALANCES	
Nonspendable	1,262,962
Restricted:	
Stabilization of State Statute	11,415,538
Medicaid Risk Reserve	24,877,639
Committed	53,798,484
Unassigned	9,138,337
Total Fund Balances	100,492,960
Total Liabilities and Fund Balances	$ 132,890,015

Amounts Reported in the Statement of Net Position are Different Because:	
Fund Balance	$ 100,492,960
Capital Assets Used in Governmental Activities are not Financial Resources and therefore, are not Reported in the Funds	3,330,239
Deferred Inflows and Outflows are not Reported in the Funds	2,416,679
Pension Liabilities are not a Financial Resource and therefore, are not Reported in the Funds	(2,338,755)
Deferred Liabilities for revenue and rent is not due and payable in the current period and, therefore is not Reported in the Fund	(1,001,041)
Liability for Compensated Absences is not Due and Payable in the Current Period and therefore, is not Reported in the Fund	(2,187,617)
	$ 100,712,465

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SUPPLEMENTAL SCHEDULE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
State & Federal	$ 62,535,959	$ 67,202,040	$ 65,015,466	$ (2,186,574)
Local	2,939,599	2,934,599	2,934,598	(1)
Medicaid	298,131,421	310,874,623	314,073,589	3,198,966
Other Income	5,282,567	5,409,813	4,575,388	(834,425)
Total Revenues	368,889,546	386,421,075	386,599,041	177,966
EXPENDITURES				
Personnel & Professional Services	33,171,597	36,082,854	35,968,557	114,297
Supplies	135,094	242,772	228,541	14,231
Current Obligations	2,430,618	3,324,010	3,301,254	22,756
Fixed Expenses	2,725,597	4,013,446	3,902,166	111,280
Capital Outlay	3,361,423	2,768,246	2,711,744	56,502
Contracts	327,453,217	357,726,055	338,289,237	19,436,818
Total Expenditures	369,277,546	404,157,383	384,401,499	19,755,884
Revenues Over (Under) Expenditures Before Other Financing Sources	(388,000)	(17,736,308)	2,197,542	19,933,850
OTHER FINANCING SOURCES:				
Appropriated Fund Balance	388,000	17,736,308	-	(17,736,308)
Change in Fund Balance	$ -	$ -	2,197,542	$ 2,197,542
Fund Balance - Beginning			98,295,418	
FUND BALANCE - ENDING			$ 100,492,960	

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

SUPPLEMENTAL SCHEDULE RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS TO THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

JUNE 30, 2016

Net Changes in Fund Balances - Total Governmental Funds	$ 2,197,542
Governmental funds report capital outlays as expenditures. However, in the Statement of Revenues, Expenses and Changes in Net Position the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	125,453
Expenses related to compensated absences in the statement of Revenues, Expenses and Changes in Net Position that do not require current financial resources are not reported as expenses in the funds.	(479,292)
OPEB and Pension funding in the statement of Revenues, Expenses and Changes in Net Position that do not require current financial resources are not reported in the funds.	129,528
Deferred revenues are shown as revenue on the modified accrual basis	(888,481)
Some expenses in the Statement of Revenues, Expenses and Changes in Net Position that do not require current financial resources are not reported as expenses on a modified accrual basis	(45,907)
Book Value of Disposed Capital Assets	(9,306)
Increase in Net Position	$ 1,029,537

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF COMMITTED FUND BALANCES
JUNE 30, 2016

Unemployment Compensation	$ 500,000
Annual Leave Payout	1,200,000
Community and Capital Reinvestment Initiative	16,550,811
30 Day Cash Operating Reserve	29,500,000
Single Stream Funding Replacement	4,047,673
Insurance Premium Liability	1,000,000
Retention Risk Reserve	1,000,000
	$ 53,798,484

Compliance Section

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Area Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services
Sylva, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the major fund of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the Organization), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 controls 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 significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit, we did not identify an deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Area Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
October 27, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Area Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services
Sylva, North Carolina

Report on Compliance for Each Major and State Federal Program

We have audited Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended June 30, 2016. The Organization's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2016.

Area Board of Directors
Smoky Mountain Center for Mental Health, Developmental
Disabilities, and Substance Abuse Services

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and 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 Organization's internal control over compliance.

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

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

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
October 27, 2016

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
   - Material weakness(es) identified? ______ yes __x__ no
   - Significant deficiency(ies) identified? ______ yes __x__ none reported
3. Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

1. Internal control over major federal programs:
   - Material weakness(es) identified? ______ yes __x__ no
   - Significant deficiency(ies) identified? ______ yes __x__ none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ______ yes __x__ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
93.958	Block Grant for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? __x__ yes ______ no

State Financial Assistance

1. Internal control over state projects:
   - Material weakness(es) identified? __________ yes ___x___ no
   - Significant deficiency(ies) identified? __________ yes ___x___ none reported
2. Type of auditors' report issued on compliance for state projects: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __________ yes ___x___ no

Identification of Major State Projects

CSFA Number(s)	Name of State Project
536998	Single Stream Funding
536996001	Crisis Services – Local Psych Inpatient
536996010	Community Based Crisis

Dollar threshold used to distinguish between Type A and Type B state projects: $ 500,000

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV – Prior Year Findings

There were no findings in the prior year that were required to be reported.

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND SUBSTANCE ABUSE SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2016

	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	State Expenditures
Federal Awards				
U.S. Department of Housing and Urban Development				
Shelter Plus Care Program	14.238		$ 937,308	$ -
Total U.S. Department of Housing and Urban Development			937,308	-
U.S. Department of Health and Human Services Substance Abuse and Mental Health Service Administration Passed-through the NC Dept. of Health and Human Services: Division of Mental Health, Developmental Disabilities and Substance Abuse Services:				
Projects for Assistance in Transition from Homelessness (PATH)	93.150		227,784	-
Block Grant for North Carolina System of Care Expansion	93.104		52,806	-
Block Grant for Adv. Strategic Prevention Framework - Partnership for Success	93.243		107,755	-
Social Services Block Grant - Community Based Programs-Mental Health	93.667		547,812	-
Block Grant for Community Mental Health Services - Community Based Program-Mental Health	93.958		1,833,785	-
Block Grant for Prevention and Treatment of Substance Abuse - Substance Abuse-Substance Abuse Prevention	93.959		4,647,158	-
Total U.S. Department of Health and Human Services			7,417,100	-
Total Federal Awards			8,354,408	-
State Awards				
NC Department of Health and Human Services Division of Mental Health, Developmental Disabilities and Substance Abuse Services:				
Single Stream Funding		536998	-	51,409,588
Community Based Crisis		536996010	-	1,050,650
DOJ - Supported Employment		536998003	-	412,600
Crisis Services - Local Psych Inpatient		536996001	-	4,565,407
DOJ - Housing		536998002	-	145,057
Total State Awards			-	57,583,302
Total Federal and State Awards			$ 8,354,408	$ 57,583,302

SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND SUBSTANCE ABUSE SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the Federal and state grant activity of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services is presented on the accrual basis of accounting. The information in this schedule 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

The Organization has elected not to use the 10% de minimis cost rate.

NOTE 2 CONTINGENCIES

The Organization is subject to audit examination by the funding sources of grants to determine its compliance with certain grant provisions. In the event that expenditures could be disallowed through the audit, repayment of such disallowances could be required.