VAYA HEALTH

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

VAYA HEALTH
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YEAR ENDED JUNE 30, 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vaya Health
Asheville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Vaya Health (the Organization), as of and for the year ended June 30, 2018, 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.

Opinion

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, 2018, 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.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 4 of the financial statements, the Organization adopted Governmental Accounting Standards Board Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during the year ended June 30, 2018. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, and the required supplementary information, as listed in the table of contents on pages 32 through 34 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018, 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 solely 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 the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
October 26, 2018

Management's Discussion and Analysis (MD&A)

The management of Vaya Health (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, 2018. 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 decreased by a total of $8,512,497 as compared to the previous year-end. An amount of $6,617,748 of this decrease 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 $1,553,133 (or 46.65%) as compared to the previous year's end.
- Unrestricted net position decreased by $16,683,378 to $35,849,343 during the fiscal year ended June 30, 2018. The key contributing factor for this decrease was a result of state legislature's requirement in the fiscal year of a single stream replacement requirement of $7,449,987 and a state portion of risk reserve contribution requirement $2,315,471.
- The business-type activity operating revenues were $410,748,603 for the fiscal year ended June 30, 2018.
- Total operating expenses of all the Organization's programs were $418,747,088 during the fiscal year ended June 30, 2018.

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 23-county catchment area. The 23-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).

Effective January 1, 2017, the organization legally changed its name from Smoky Mountain Center for Mental Health, Development Disabilities, and Substance Abuse Services to Vaya Health. The name change did not have any impact on the organization's contracts with state agencies or providers.

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 noncompliance, 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 13-31. After the notes, supplemental information is provided to show details about the Organization's postemployment 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, 2018, 2017, and 2016 is presented in Table A-1.

Table A-1
Condensed Statements of Net Position
June 30, 2018, 2017, and 2016

	2018	2017	2016
Current Assets	$ 67,806,079	$ 87,583,267	$ 108,012,376
Restricted Cash	37,963,258	31,345,510	24,877,639
Capital Assets	4,882,554	3,329,421	3,330,239
Total Assets	110,651,891	122,258,198	136,220,254
Deferred Outflows of Resources	5,777,619	8,681,761	3,259,690
Total Assets and Deferred Outflows of Resources	$ 116,429,510	$ 130,939,959	$ 139,479,944
Current Liabilities	$ 27,252,459	$ 31,793,731	$ 33,510,536
Pension Liability	6,448,371	8,468,546	1,621,946
Other Postemployment Benefits	2,122,000	913,661	716,809
Other Long-Term Liabilities	1,729,002	2,259,632	2,075,177
Total Liabilities	37,551,832	43,435,570	37,924,468
Deferred Inflows of Resources	182,523	296,737	843,011
Net Position			
Net Investment in Capital Assets	4,882,554	3,329,421	3,330,239
Restricted	37,963,258	31,345,510	24,877,639
Unrestricted Net Position	35,849,343	52,532,721	72,504,587
Total Net Position	78,695,155	87,207,652	100,712,465
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 116,429,510	$ 130,939,959	$ 139,479,944

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Organization exceeded liabilities by $73,100,059 as of June 30, 2018. 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 45.6% of the total fund balance is unrestricted while 48.2% 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, 2018, 2017, and 2016

	2018	2017	2016
Revenues			
Intergovernmental:			
Local	$ 2,946,773	$ 2,946,773	$ 2,934,598
Federal	12,909,417	9,366,174	7,336,586
State	63,485,503	50,672,196	57,678,880
Medicaid	329,588,044	326,818,634	314,073,589
Other Income	1,818,866	3,680,470	3,456,487
Total Revenues	410,748,603	393,484,247	385,480,140
Expenses			
Personnel	34,171,667	36,600,642	32,697,911
Professional Services	1,701,909	3,134,210	3,620,408
Supplies	244,041	245,459	228,541
Current Obligations and Services	2,721,353	3,276,673	3,301,254
Fixed Charges and Expenses	5,547,122	4,953,786	3,948,074
Capital Outlay	808,988	1,983,800	2,009,193
Depreciation	675,398	650,287	577,099
Contracts and Grants	372,876,610	356,398,488	338,289,237
Total Expenses	418,747,088	407,243,345	384,671,717
Nonoperating Income (Loss)			
Loss on Disposal of Capital Assets	(44,275)	-	(8,726)
Interest Income	354,602	254,285	229,840
Total Nonoperating Income	310,327	254,285	221,114
Change in Net Position	(7,688,158)	(13,504,813)	1,029,537
Net Position - Beginning of Year, Previously Reported	87,207,652	100,712,465	99,682,928
Restatement - Other Postemployment Benefits	(824,339)	-	-
Net Position - Beginning of Year, Restated	86,383,313	100,712,465	99,682,928
Net Position - End of Year	$ 78,695,155	$ 87,207,652	$ 100,712,465

Capital Asset and Debt Administration

The Organization's investment in capital assets as of June 30, 2018, 2017, and 2016, totals $4,882,554, $3,329,421, and $3,330,239 (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, 2018, 2017, and 2016

	2018	2017	2016
In Process	$ -	$ 720,766	$ 206,372
Land	655,870	655,870	655,870
Buildings	401,679	429,002	456,327
Leasehold Improvements	2,570,599	553,744	688,176
Vehicles	18,970	32,836	46,762
Office Furniture and Equipment	31,861	84,240	127,137
Computer Equipment	1,203,575	852,963	1,149,595
Total Capital Assets	$ 4,882,554	$ 3,329,421	$ 3,330,239

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

At June 30, 2018, 2017, and 2016, 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 use 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, 2019:

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 catchment area. There are 23 counties in the Organization's catchment area.

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 Chief Financial Officer, Vaya Health, 200 Ridgefield Court, Asheville, North Carolina, 28806.

Basic Financial Statements

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VAYA HEALTH
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS	
Cash and Cash Equivalents	$ 59,837,387
Accounts Receivable, Net	6,267,206
Prepaid Expenses	1,653,361
Other Assets	48,125
Total Current Assets	67,806,079
NONCURRENT ASSETS	
Restricted Cash and Cash Equivalents	37,963,258
Capital Assets, Net of Accumulated Depreciation	4,882,554
Total Noncurrent Assets	42,845,812
Total Assets	110,651,891
DEFERRED OUTFLOWS OF RESOURCES	5,777,619
Total Assets and Deferred Outflows of Resources	$ 116,429,510

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES	
Accounts Payable and Other Current Liabilities	$ 12,721,566
Liability for Claims Incurred, but not Reported	14,296,979
Unavailable Revenue	8,914
Compensated Absences - Current Portion	225,000
Total Current Liabilities	27,252,459
LONG-TERM LIABILITIES	
Other Postemployment Benefits	2,122,000
Pension Liability	6,448,371
Compensated Absences - Long-Term	1,729,002
Total Long-Term Liabilities	10,299,373
Total Liabilities	37,551,832
DEFERRED INFLOWS OF RESOURCES	182,523
NET POSITION	
Net Investment in Capital Assets	4,882,554
Restricted:	
Medicaid Risk Reserve	37,963,258
Unrestricted	35,849,343
Total Net Position	78,695,155
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 116,429,510

See accompanying Notes to Financial Statements.

VAYA HEALTH
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Intergovernmental:	
Local	$ 2,946,773
Federal	12,909,417
State	63,485,503
Medicaid	329,588,044
Other Income	1,818,866
Total Operating Revenues	410,748,603
EXPENSES	
Personnel	34,171,667
Professional Services	1,701,909
Supplies and Materials	244,041
Current Obligations and Services	2,721,353
Fixed Charges and Expenses	5,547,122
Capital Outlay	808,988
Depreciation	675,398
Contracts and Grants	372,876,610
Total Expenses	418,747,088
OPERATING LOSS	(7,998,485)
NONOPERATING INCOME (LOSS)	
Loss on Sale of Capital Assets	(44,275)
Interest Income	354,602
Total Nonoperating Income	310,327
DECREASE IN NET POSITION	(7,688,158)
Net Position - Beginning of Year, Previously Reported	87,207,652
Restatement - Other Postemployment Benefits	(824,339)
Net Position - Beginning of Year, Restated	86,383,313
NET POSITION - END OF YEAR	$ 78,695,155

See accompanying Notes to Financial Statements.

VAYA HEALTH
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Federal, State, and Local Agencies	$ 418,114,116
Payments to Suppliers	(11,192,253)
Payments to Employees	(34,588,043)
Payments for Contracted Services	(377,417,208)
Other Receipts and Payments, Net	3,171,873
Net Cash Used by Operating Activities	(1,911,515)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(2,272,806)
Net Cash Used by Capital and Related Financing Activities	(2,272,806)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	354,602
Net Cash Provided by Investing Activities	354,602
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,829,719)
Cash and Cash Equivalents - Beginning of Year	101,630,364
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 97,800,645
Cash and Cash Equivalents	$ 59,837,387
Restricted Cash and Cash Equivalents	37,963,258
Total Cash and Cash Equivalents	$ 97,800,645
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Loss	$ (7,998,485)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	675,398
Change in Assets and Liabilities:	
Decrease in Accounts Receivable	9,185,053
Decrease in Prepaid Expenses and Other Assets	144,668
Decrease in Pension Related Accounts	769,753
Increase in Other Postemployment Benefits Liability	384,000
Decrease in Accounts Payable and Accrued Expenses	(4,540,598)
Decrease in Deferred Revenue	(674)
Decrease in Deferred Lease Liability	(168,840)
Decrease in Compensated Absences	(361,790)
Net Cash Used by Operating Activities	$ (1,911,515)

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Vaya Health (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 21-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.

Effective January 1, 2017, the Organization legally changed its name from Smoky Mountain Center for Mental Health, Development Disabilities, and Substance Abuse Services to Vaya Health. The name change did not have any impact on the organization’s contracts with state agencies or providers.

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. Nonexchange 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 accrual basis during the year. Under this basis, revenues are recorded when earned and expenses are recorded when incurred. In converting from the full accrual basis to the modified accrual basis, the changes required may include adjustments for depreciation, capital outlay, compensated absences, and 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 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 allocation letters caused budget revision amendments to the original budget. 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, 2018.

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 nonguaranteed 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:

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

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 annual leave policy of the Organization provides for the accumulation of up to two hundred and forty (240) hours earned annual 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. Defined Benefit Pension and OPEB Plans

The Organization participates in one cost-sharing, multiple-employer, defined benefit pension plan that is administered by the State, the Local Governmental Employees' Retirement System (LGERS), and one other postemployment benefit plan (OPEB), the Employment Benefit Fund (EBF). 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. For purposes of measuring the net OPEB liability and OPEB expense, information has been determined on the same basis as they are reported by the EBF. For this purpose, the EBF recognizes benefit payments when due and payable with the benefit terms.

9. 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 five pension items that meet this criterion; see Note 2 for further detail.

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 one item that meets this criterion – differences between expected and actual experience.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. 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 noninterest 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.

At June 30, 2018, the Organization's deposits had a carrying amount of $83,202,404 and a bank balance of $84,588,746. Of the bank balance, $500,000 was covered by Federal Depository Insurance; $84,088,746 in interest bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2018, the Organization had $1,350 of cash on hand.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

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, 2018, 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
Money Market Funds	$ 14,596,891	$ 14,596,891	$ -	$ -
Total Investments by Fair Value Level	$ 14,596,891	$ 14,596,891	$ -	$ -

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, 2018, 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*	$ 14,596,891	$ 14,596,891	$ -	$ -
	$ 14,596,891	$ 14,596,891	$ -	$ -

*Because the NC Capital Management Trust Term Portfolio had a duration of 0.09 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, 2018 were as follows:

	Government	Other Providers	Total
General	$ 5,278,983	$ 1,494,119	$ 6,773,102
Less: Allowance for Doubtful Accounts	-	(505,896)	(505,896)
Total	$ 5,278,983	$ 988,223	$ 6,267,206

4. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balance
Capital Assets not Being Depreciated:					
Land	$ 655,870	$ -	$ -	$ -	$ 655,870
Construction in Progress	720,766	-	720,766	-	-
Total Capital Assets not Being Depreciated	1,376,636	-	720,766	-	655,870
Capital Assets Being Depreciated:					
Buildings	546,464	-	-	-	546,464
Vehicles	55,702	-	-	-	55,702
Computer Equipment	3,007,478	755,638	138,968	-	3,624,148
Office Furniture	468,675	-	12,407	-	456,268
Leasehold Improvements	1,007,873	2,237,934	41,557	-	3,204,250
Total Capital Assets Being Depreciated	5,086,192	2,993,572	192,932	-	7,886,832
Less: Accumulated Depreciation for:					
Buildings	117,462	27,323	-	-	144,785
Vehicles	22,866	13,866	-	-	36,732
Computer Equipment	2,154,515	377,187	111,129	-	2,420,573
Office Furniture	384,435	52,379	12,407	-	424,407
Leasehold Improvements	454,129	204,643	25,121	-	633,651
Total Accumulated Depreciation	3,133,407	675,398	148,657	-	3,660,148
Capital Assets, Net	$ 3,329,421	$ 2,318,174	$ 765,041	$ -	$ 4,882,554

In addition, the Organization acquired $404,147 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, 2018, were as follows:

	Vendors	Accrued Wages and Benefits	Incurred but not Reported Claims	Total
Payables	$ 11,314,151	$ 1,407,415	$ 14,296,979	$ 27,018,545
Total	$ 11,314,151	$ 1,407,415	$ 14,296,979	$ 27,018,545

2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment 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 – 9 appointed by the Governor, 1 appointed by the State Senate, 1 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 postretirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The 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, 2018 was 7.55% 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 $2,022,000 for the year ended June 30, 2018.

At June 30, 2018, the Organization reported a liability of approximately $6,448,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the Organization's proportion was 0.422%.

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)

For the year ended June 30, 2018, the Organization recognized pension expense of approximately $2,792,000. At June 30, 2018, 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	$ 371,486	$ 182,523
Changes of assumptions	920,916	-
Net difference between projected and actual earnings on pension plan investments	1,565,669	-
Changes in proportion and differences between Organization contributions and proportionate share of contributions	897,451	-
Organization contributions subsequent to the measurement date	2,022,097	-
Total	$ 5,777,619	$ 182,523

Deferred outflows of resources of approximately $2,022,000 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	$ 921,636
2020	2,072,809
2021	1,024,401
2022	(445,847)
Total	$ 3,572,999

Actuarial Assumptions: The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.5 to 7.75%, including inflation and productivity factor
Investment rate of return	7.20%, net of pension plan investment expense, including inflation

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 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, 2016 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.

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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Expected Rate of Return
Fixed Income	29.0 %	1.4 %
Global Equity	42.0	5.3
Real Estate	8.0	4.3
Alternatives	8.0	8.9
Credit	7.0	6.0
Inflation Protection	6.0	4.0
Total	100.0 %	

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 information above is based on 30-year expectations developed with the consulting actuary for the 2017 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 7.20%. 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 7.20%, 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 (6.20%) or one percentage point higher (8.20)% than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Organization's proportionate share of the Net Pension Liability (Asset)	$ 19,358,141	$ 6,448,371	$ (4,327,220)

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.

Coverage may continue for the retiree until the retiree becomes entitled to Medicare benefits or reaches the age of 65, 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.

Benefits Provided: 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.

Contributions: The funding policy of the Organization is to contribute an amount sufficient to satisfy benefit payment requirements to participants. Employees are not required to contribute to the EBF.

Employees Covered by Benefit Terms: At June 30, 2017, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently Receiving Benefit Payments	7
Inactive Plan Members Entitled to but not yet Receiving Benefit Payments	-
Active Plan Members	461
Total	468

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)

Total OPEB Liability: The Organization's total OPEB liability of $2,122,000 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases	2.50%
Discount Rate	3.56%
Healthcare Cost Trend Rates	7.5% for fiscal year-end 2018, decreasing 0.50 % per year to an ultimate rate of 5.00%

Mortality rates were based on the RP-2014 Fully Generational Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2017.

Discount Rate: The discount rate used to measure the total OPEB liability has been set equal to 3.56% and represents the Municipal GO AA 20-year yield curve rate as of June 30, 2017.

Changes in the Total OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)-(b)
Balance - June 30, 2017	$ 1,738,000	$ -	$ 1,738,000
Changes for the Year:			
Service Cost	389,000	-	389,000
Interest	74,000	-	74,000
Contributions - Employer	-	79,000	(79,000)
Net Investment Income	-	-	-
Benefit Payments	(79,000)	(79,000)	-
Administrative Expense	-	-	-
Changes in Benefit Terms	-	-	-
Net Changes	384,000	-	384,000
Balance - June 30, 2018	$ 2,122,000	$ -	$ 2,122,000

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)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the net OPEB liability of the Organization as of the measurement date calculated using the discount rate, as well as what the Organization's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB Liability	$ 2,410,000	$ 2,122,000	$ 1,868,000

Sensitivity of the net OPEB liability to changes in the trend rate: The following presents the net OPEB liability of the Organization as of the measurement date calculated using the trend rate, as well as what the Organization's net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current trend rate:

	1% Decrease (6.50%)	Current Trend Rate (7.50%)	1% Increase (8.50%)
Net OPEB Liability	$ 1,780,000	$ 2,122,000	$ 2,540,000

For the year ended June 30, 2018, under GASB 75, the Organization's OPEB expense is $463,000.

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

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

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. The Organization 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 $2,000,000 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, 2018, the long-term obligations of the Organization consisted of the following:

	Balance July 1, 2017	Net Increase	Balance June 30, 2018	Amounts Due within One Year
Compensated Absences	$ 2,315,792	$ (361,790)	$ 1,954,002	$ 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

Noncancellable Operating Leases

The Organization leases certain operating facilities under noncancellable operating leases. Future lease payments due under these leases subsequent to June 30, 2018 are as follows:

Year Ending June 30,	Amount
2019	$ 1,094,687
2020	1,153,811
2021	1,102,273
2022	1,111,099
2023	1,120,014
Total	$ 5,581,884

Total rent expense for all operating leases amounted to $1,245,997 for the year ended June 30, 2018.

NOTE 3 NEW ACCOUNTING STANDARD

The Organization adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the fiscal year ending June 30, 2018. The implementation of this standard required the Organization to record a beginning net OPEB liability and the effects on net position of contributions paid by the Organization to the OPEB plan during the measurement period. In addition, the adoption required the removal of the previously recorded net OPEB obligation. As a result of the adoption of this standard, the Organization recorded a prior period adjustment to decrease its net position as of July 1, 2017 by $824,339.

Required Supplementary Information

VAYA HEALTH
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

	2018
Total OPEB liability	
Service cost	$ 389,000
Interest	74,000
Changes of benefit terms	-
Benefit payments	(79,000)
Net change in total OPEB liability	384,000
Total OPEB liability - beginning	1,738,000
Total OEPB liability - ending	$ 2,122,000
Plan fiduciary net position	
Contributions - employer	$ 79,000
Benefit payments, including refunds of employee contributions	(79,000)
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	$ -
Organization's net OPEB liability - ending	$ 2,122,000
Plan fiduciary net position as a % of the total OPEB liability	0.00%
Covered-employee payroll	24,710,000
Organization's net OPEB liability as a percentage of Covered-employee payroll	8.59%

Schedule of Employee Contributions	2018
Actuarially Determined Contribution	$ 79,000
Contributions in relation to the Actuarially Determined Contribution	79,000
Contribution deficiency (excess)	$ -
Expected covered-employee payroll	24,710,000
Contributions as a percentage of covered-employee payroll	0.32%

Notes to Schedule:
Benefit Changes: None
Changes of Assumptions: None

The Organization implemented GASB 75 during the current fiscal year. As such, only one year of information is available.

VAYA HEALTH
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
YEAR ENDED JUNE 30, 2018

Local Government Employees' Retirement System

	2018*	2017*	2016*	2015*
Organization's proportion of the net pension (asset) liability (%)	0.422090%	0.399020%	0.361400%	-0.296340%
Organization's proportion of the net pension (asset) liability ($)	$ 6,448,371	$ 8,468,546	$ 1,621,946	$ (1,747,654)
Organization's covered-employee payroll	26,700,357	24,821,723	22,101,861	16,755,550
Organization's proportionate share of the net pension asset as a percentage of its covered-employee payroll	24.15%	34.12%	7.34%	-10.43%
Plan fiduciary net position as a percentage of the total pension asset**	94.18%	91.47%	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.

VAYA HEALTH
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
CONTRIBUTIONS
YEAR ENDED JUNE 30, 2018

Local Government Employees' Retirement System

	2018	2017	2016	2015
Contractually required contribution	$ 2,022,194	$ 1,935,776	$ 1,655,609	$ 1,562,643
Contributions in relation to the contractually required contribution	2,022,097	1,954,467	1,673,466	1,562,643
Contribution deficiency (excess)	$ 97	$ (18,691)	$ (17,857)	$ -
Organization's covered-employee payroll	$ 26,784,025	$ 26,700,357	$ 24,821,723	$ 22,101,861
Contributions as a percentage of covered-employee payroll	7.55%	7.25%	6.67%	7.07%

Supplemental Schedules
for
NC Division of Medical Assistance Reporting

VAYA HEALTH
SUPPLEMENTAL SCHEDULE
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS
JUNE 30, 2018

ASSETS	
Cash and Cash Equivalents	$ 59,837,387
Restricted Cash and Cash Equivalents	37,963,258
Accounts Receivable, Net of Allowance for Uncollectible Accounts and Contractual Allowances	6,267,206
Prepaid Expenses and Deposits	1,653,361
Other Assets	48,125
Total Assets	$ 105,769,337
LIABILITIES	
Accounts Payable	$ 11,314,151
Accrued Expenses	1,407,415
Liability for Claims Incurred, but not Reported	14,296,979
Total Liabilities	27,018,545
FUND BALANCES	
Nonspendable	1,701,486
Restricted:	
Stabilization of State Statute	6,267,206
Medicaid Risk Reserve	37,963,258
Committed	23,391,588
Unassigned	9,427,254
Total Fund Balances	78,750,792
Total Liabilities and Fund Balances	$ 105,769,337

Amounts Reported in the Statement of Net Position are Different Because:	
Fund Balance	$ 78,750,792
Capital Assets Used in Governmental Activities are not Financial Resources and, therefore, are not Reported in the Funds	4,882,554
Deferred Inflows and Outflows are not Reported in the Funds	5,595,096
Pension Liabilities are not a Financial Resource, and therefore, are not Reported in the Funds	(8,570,371)
Deferred Liabilities for Revenue and Rent is not Due and Payable in the Current Period and, therefore, is not Reported in the Funds	(8,914)
Liability for Compensated Absences is not Due and Payable in the Current Period and, therefore, is not Reported in the Funds	(1,954,002)
	$ 78,695,155

VAYA HEALTH
SUPPLEMENTAL SCHEDULE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS
YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
State and Federal	$ 59,315,662	$ 79,364,119	$ 76,394,920	$ (2,969,199)
Local	2,946,773	2,946,773	2,946,773	-
Medicaid	327,632,716	336,714,692	329,588,044	(7,126,648)
Other Income	1,972,902	2,137,604	2,037,662	(99,942)
Total Revenues	391,868,053	421,163,188	410,967,399	(10,195,789)
EXPENDITURES				
Personnel and Professional Services	38,275,298	38,794,111	35,081,613	3,712,498
Supplies	394,522	451,011	244,041	206,970
Current Obligations	3,379,176	3,482,209	2,721,353	760,856
Fixed Expenses	6,826,912	7,840,002	5,571,242	2,268,760
Capital Outlay	3,034,325	2,634,325	3,091,382	(457,057)
Contracts	355,230,925	387,584,360	372,876,610	14,707,750
Total Expenditures	407,141,158	440,786,018	419,586,241	21,199,777
Revenues Over (Under) Expenditures Before Other Financing Sources	(15,273,105)	(19,622,830)	(8,618,842)	11,003,988
OTHER FINANCING SOURCES				
Appropriated Fund Balance	15,273,105	19,622,830	-	(19,622,830)
Change in Fund Balance	$ -	$ -	(8,618,842)	$ (8,618,842)
Fund Balance - Beginning			87,369,634	
FUND BALANCE - ENDING			$ 78,750,792	

VAYA HEALTH
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, 2018

Net Change in Fund Balances - Total Governmental Funds	$ (8,618,842)
Governmental funds report capital outlays as expenditures. However, in the statement of revenues, expenses, and change 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 depreciation exceeded capital outlay in the current period.	1,606,996
Expenses related to compensated absences in the statement of revenues, expenses, and change in net position that do not require current financial resources are not reported as expenses in the funds.	361,790
OPEB and Pension funding in the statement of revenues, expenses, and change in net position that do not require current financial resources are not reported in the funds.	(1,153,753)
Deferred revenues are shown as revenue on the modified accrual basis	(8,914)
Some expenses in the statement of revenues, expenses, and change in net position that do not require current financial resources are not reported as expenses on a modified accrual basis.	124,565
Decrease in Net Position	$ (7,688,158)

VAYA HEALTH
SUPPLEMENTAL SCHEDULE
SCHEDULE OF COMMITTED FUND BALANCES
JUNE 30, 2018

Unemployment Compensation	$ 500,000
Annual Leave Payout	1,200,000
Ridgefield Expansion	1,806,488
Vaya Total Care	950,168
Cash Operating Reserve	12,500,000
Postemployment Benefits	994,739
Insurance Premium Liability	1,000,000
Retention Risk Reserve	1,000,000
Administrative Funding	3,440,193
Total	$ 23,391,588

VAYA HEALTH
SUPPLEMENTAL SCHEDULE
STATEMENT OF NET POSITION – MEDICAID AND NON-MEDICAID – FULL ACCRUAL BASIS
JUNE 30, 2018

	Medicaid	Non-Medicaid	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 72,092,599	$ (12,255,212)	$ 59,837,387
Accounts Receivable, Net	4,151,010	2,116,196	6,267,206
Prepaid Expenses	1,124,131	529,230	1,653,361
Other Assets	47,624	501	48,125
Total Current Assets	77,415,364	(9,609,285)	67,806,079
NONCURRENT ASSETS			
Restricted Cash and Cash Equivalents	37,963,258	-	37,963,258
Capital Assets, Net of Accumulated Depreciation	3,776,745	1,105,809	4,882,554
Total Noncurrent Assets	41,740,003	1,105,809	42,845,812
Total Assets	119,155,367	(8,503,476)	110,651,891
DEFERRED OUTFLOWS OF RESOURCES	4,851,825	925,794	5,777,619
Total Assets and Deferred Outflows of Resources	$ 124,007,192	$ (7,577,682)	$ 116,429,510
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable and Other Current Liabilities	$ 8,172,997	$ 4,548,569	$ 12,721,566
Liability for Claims Incurred, but not Reported	13,773,899	523,080	14,296,979
Unavailable Revenue	7,486	1,428	8,914
Compensated Absences - Current Portion	188,946	36,054	225,000
Total Current Liabilities	22,143,328	5,109,131	27,252,459
LONG-TERM LIABILITIES			
Other Postemployment Benefits	1,781,975	340,025	2,122,000
Pension Liability	5,415,097	1,033,274	6,448,371
Compensated Absences - Long-Term	1,451,950	277,052	1,729,002
Total Long-Term Liabilties	8,649,022	1,650,351	10,299,373
Total Liabilities	30,792,350	6,759,482	37,551,832
DEFERRED INFLOWS OF RESOURCES	153,276	29,247	182,523
NET POSITION			
Net Investment in Capital Assets	3,776,745	1,105,809	4,882,554
Restricted:			
Medicaid Risk Reserve	37,963,258	-	37,963,258
Unrestricted	51,321,563	(15,472,220)	35,849,343
Total Net Position	93,061,566	(14,366,411)	78,695,155
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 124,007,192	$ (7,577,682)	$ 116,429,510

VAYA HEALTH
SUPPLEMENTAL SCHEDULE
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION – MEDICAID AND NON-MEDICAID – FULL ACCRUAL BASIS
YEAR ENDED JUNE 30, 2018

	Medicaid	Non-Medicaid	Total
OPERATING REVENUES			
Intergovernmental:			
Local	$ -	$ 2,946,773	$ 2,946,773
Federal	-	12,909,417	12,909,417
State	-	63,485,503	63,485,503
Medicaid	329,588,044	-	329,588,044
Other Income	52,440	1,766,426	1,818,866
Total Revenues	329,640,484	81,108,119	410,748,603
EXPENSES			
Personnel	27,796,594	6,375,073	34,171,667
Professional Services	1,514,119	187,790	1,701,909
Supplies and Materials	204,428	39,613	244,041
Current Obligations and Services	1,475,118	1,246,235	2,721,353
Fixed Charges and Expenses	4,486,482	1,060,640	5,547,122
Capital Outlay	749,446	59,542	808,988
Depreciation	562,726	112,672	675,398
Contracts and Grants	288,944,672	83,931,938	372,876,610
Total Expenses	325,733,585	93,013,503	418,747,088
OPERATING INCOME (LOSS)	3,906,899	(11,905,384)	(7,998,485)
NONOPERATING INCOME (LOSS)			
Loss on Sale of Capital Assets	-	(44,275)	(44,275)
Interest Income	-	354,602	354,602
Total Nonoperating Income	-	310,327	310,327
DECREASE IN NET POSITION	3,906,899	(11,595,057)	(7,688,158)
Net Position - Beginning of Year, Previously Reported	89,846,916	(2,639,264)	87,207,652
Restatement - Other Postemployment Benefits	(692,249)	(132,090)	(824,339)
Net Position - Beginning of Year, Restated	89,154,667	(2,771,354)	86,383,313
NET POSITION - END OF YEAR	$ 93,061,566	$ (14,366,411)	$ 78,695,155

Compliance Section

CliftonLarsonAllen LLP
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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
Vaya Health
Asheville, 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 G*overnment Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the major fund of Vaya Health (the Organization), as of and for the year ended June 30, 2018, 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 26, 2018.

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 a 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 material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of 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 26, 2018

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
Vaya Health
Asheville, North Carolina

Report on Compliance for Each Major Federal and State Program

We have audited Vaya Health (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, 2018. 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, 2018.

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 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 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

Charlotte, North Carolina
October 26, 2018

VAYA HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

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 deficienc(ies) identified ________ yes ___x___ none reported

3. Noncompliance material to financial Statements noted? ________ yes ___x___ no

Financial Statements

1. Internal control over major federal programs

   - Material weakness(es) identified? ________ yes ___x___ no
   - Significant deficienc(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 Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.788	State Targeted Response to the Opioid Crisis Grant

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 deficienc(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

CFDA Number(s)	Name of State Project
536998	Single Stream Funding
536996001	Crisis Services – Local Psych Inpatient (3-way)
536998003	DOJ – Supported Employment
536996010	Community Based Services
536996003	Facility Based Crisis Urgent Care

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.

VAYA HEALTH
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	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	14.238		$ 765,618	$ -
Total U.S. Department of Housing and Urban Development			765,618	-
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:				
Block Grant for North Carolina System of Care Expansion	93.104		91,000	-
Block Grant for Strategic Prevention Framework - Partnership for Success	93.243		231,444	-
Social Services Block Grant	93.667		454,667	-
Block Grants for Community Mental Health Services	93.958		1,342,364	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959		9,550,646	-
State Targeted Response to the Opioid Crisis Grant	93.788		1,239,296	-
Total U.S. Department of Health and Human Services			12,909,417	-
Total Federal Awards			13,675,035	-
State Awards				
NC Department of Health and Human Services Division of Mental Health, Developmental Disabilities and Substance Abuse Services:				
Single Stream Funding		536998	-	56,331,862
DOJ - Supported Employment		536998003	-	579,217
Community Based Crisis		536996010	-	550,000
Crisis Services - Local Psych Inpatient (3-way)		536996001	-	5,131,974
Facility Based Crisis Urgent Care		536996003	-	692,912
DOJ - Housing		536998002	-	99,667
Total State Awards			-	63,385,632
Total Federal and State Awards			$ 13,675,035	$ 63,385,632

See Notes to Schedule of Expenditures of Federal and State Awards.

VAYA HEALTH
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the Federal and state grant activity of Vaya Health 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.

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.

NOTE 3 INDIRECT COST RATE

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

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