

VAYA HEALTH
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020



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**VAYA HEALTH
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YEAR ENDED JUNE 30, 2020**

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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, 2020, 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, 2020, 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 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 Health Benefits 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 Health Benefits 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
Vaya Health

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020, 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

Charlotte, North Carolina
October 30, 2020

**VAYA HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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, 2020. 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 \$6,024,402 as compared to the previous year-end. Included in this calculation was the amount of \$4,938,000 funding from the Division of Health Benefits for the 2% Medicaid risk reserve and the interest earned on the restricted cash. Vaya does not consider risk reserve revenue a part of their operations and without this revenue the Organization would have had a net income of \$1,086,402.
- Net investment in capital assets decreased by \$760,304 (or -18.90%) as compared to the previous year's end.
- Unrestricted net position increased by \$1,846,706 to \$27,416,197 during the fiscal year ended June 30, 2020. The key contributing factor for this increase was a result of additional capitation revenues received and efficiencies of operations realized during the fiscal year ended June 30, 2020.
- The business-type activity operating revenues were \$425,201,410 for the fiscal year ended June 30, 2020.
- Total operating expenses of all the Organization's programs were \$419,060,877 during the fiscal year ended June 30, 2020.

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 22-county catchment area. The 22-county catchment area comprises the counties of Alexander, Alleghany, Ashe, Avery, Buncombe, Caldwell, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, McDowell, Mitchell, Polk, Swain, Transylvania, Watauga, Wilkes, and Yancey.

**VAYA HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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.

**VAYA HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Statements of Net Position

A summary of the Organization's statements of net position at June 30, 2020, 2019, and 2018 is presented in Table A-1.

**Table A-1
Condensed Statements of Net Position
June 30, 2020, 2019, and 2018**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current Assets	\$ 62,093,347	\$ 62,595,947	\$ 67,806,079
Restricted Cash	49,540,249	44,602,249	37,963,258
Capital Assets	<u>3,272,572</u>	<u>4,032,876</u>	<u>4,882,554</u>
Total Assets	<u>114,906,168</u>	<u>111,231,072</u>	<u>110,651,891</u>
Deferred Outflows of Resources	<u>6,648,170</u>	<u>7,685,873</u>	<u>5,777,619</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 121,554,338</u>	<u>\$ 118,916,945</u>	<u>\$ 116,429,510</u>
Current Liabilities	\$ 24,947,221	\$ 30,649,067	\$ 27,252,459
Pension Liability	11,121,139	9,555,324	6,448,371
Other Postemployment Benefits	2,150,000	2,542,000	2,122,000
Other Long-Term Liabilities	<u>2,052,587</u>	<u>1,803,367</u>	<u>1,729,002</u>
Total Liabilities	<u>40,270,947</u>	<u>44,549,758</u>	<u>37,551,832</u>
Deferred Inflows of Resources	1,054,373	162,571	182,523
Net Position:			
Net Investment in Capital Assets	3,272,572	4,032,876	4,882,554
Restricted	49,540,249	44,602,249	37,963,258
Unrestricted Net Position	<u>27,416,197</u>	<u>25,569,491</u>	<u>35,849,343</u>
Total Net Position	<u>80,229,018</u>	<u>74,204,616</u>	<u>78,695,155</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 121,554,338</u>	<u>\$ 118,916,945</u>	<u>\$ 116,429,510</u>

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Organization exceeded liabilities by \$74,635,221 as of June 30, 2020. 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 34.2% of the total fund balance is unrestricted while 61.8% of net position is restricted by the Medicaid (b) (c) waiver contract. The remaining balance represents the net investment in fixed assets.

**VAYA HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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, 2020, 2019, and 2018**

	2020	2019	2018
Revenues			
Intergovernmental:			
Local	\$ 2,829,605	\$ 2,946,773	\$ 2,946,773
Federal	15,902,208	11,267,171	12,909,417
State	66,706,481	73,101,781	63,485,503
Medicaid	337,585,880	333,944,659	329,588,044
Other Income	2,177,236	1,949,163	1,818,866
Total Revenues	425,201,410	423,209,547	410,748,603
Expenses			
Personnel	40,216,843	36,394,556	34,171,667
Professional Services	1,266,052	1,374,237	1,701,909
Supplies	187,794	210,697	244,041
Current Obligations and Services	1,943,935	2,643,585	2,721,353
Fixed Charges and Expenses	4,601,112	5,302,055	5,547,122
Capital Outlay	153,570	277,559	808,988
Depreciation	411,318	794,708	675,398
Contracts and Grants	370,280,253	380,883,072	372,876,610
Total Expenses	419,060,877	427,880,469	418,747,088
Nonoperating Income (Loss)			
Loss on Disposal of Capital Assets	(429,072)	(367,859)	(44,275)
Interest Income	312,941	548,242	354,602
Total Nonoperating Income (Loss)	(116,131)	180,383	310,327
Change in Net Position	6,024,402	(4,490,539)	(7,688,158)
Net Position - Beginning of Year, Previously Reported	74,204,616	78,695,155	87,207,652
Restatement - Other Postemployment Benefits	-	-	(824,339)
Net Position - Beginning of Year, Restated	74,204,616	78,695,155	86,383,313
Net Position - End of Year	\$ 80,229,018	\$ 74,204,616	\$ 78,695,155

**VAYA HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Capital Asset and Debt Administration

The Organization's investment in capital assets as of June 30, 2020, 2019, and 2018, totals \$3,272,572, \$4,032,876 and \$4,882,554 (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. Depreciation expense exceeded capital outlays in fiscal year 2020.

**Table A-3
Capital Assets
June 30, 2020, 2019, and 2018**

	2020	2019	2018
Land	\$ 471,000	\$ 471,000	\$ 655,870
Buildings	190,187	203,772	401,679
Leasehold Improvements	2,300,501	2,560,157	2,570,599
Vehicles	-	5,591	18,970
Office Furniture and Equipment	3,874	11,472	31,861
Computer Equipment	307,010	780,884	1,203,575
Total Capital Assets	<u>\$ 3,272,572</u>	<u>\$ 4,032,876</u>	<u>\$ 4,882,554</u>

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

At June 30, 2020, 2019, and 2018, 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.

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. For the fiscal year ended June 30, 2020, there were 22 counties in the Organization's catchment area.

**VAYA HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Other Factors for the Year Ended June 30, 2020:

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 impacted various parts of its 2020 operations and financial results including but not limited to: additional capitation revenue received, additional costs for emergency preparedness, alternative work and caregiving arrangements, and provider stabilization payments. Management believes the Organization is taking appropriate actions to mitigate the impact of COVID-19, however, the full impact is unknown and cannot be reasonably estimated as of June 30, 2020.

Effective March 1, 2020, the Organization began operating under a new Medicaid Risk Corridor established to measure Medicaid spend metrics for all North Carolina LME/MCOs. Any financial impacts from the newly established Medicaid Risk Corridor will not be fully known or determined until nine months following the statement of net position date of June 30, 2020.

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 Executive Vice President and 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, 2020**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and Cash Equivalents	\$ 52,820,963
Accounts Receivable, Net	7,468,424
Prepaid Expenses	1,028,567
Other Assets	775,393
Total Current Assets	<u>62,093,347</u>

NONCURRENT ASSETS

Restricted Cash and Cash Equivalents	49,540,249
Capital Assets, Net of Accumulated Depreciation	3,272,572
Total Noncurrent Assets	<u>52,812,821</u>

Total Assets 114,906,168

DEFERRED OUTFLOWS OF RESOURCES

6,648,170

Total Assets and Deferred Outflows of Resources \$ 121,554,338

**LIABILITIES, DEFERRED INFLOWS
OF RESOURCES, AND NET POSITION**

CURRENT LIABILITIES

Accounts Payable and Other Current Liabilities	\$ 9,553,119
Liability for Claims Incurred, but not Reported	15,126,897
Deferred Revenue	42,205
Compensated Absences - Current Portion	225,000
Total Current Liabilities	<u>24,947,221</u>

LONG-TERM LIABILITIES

Other Postemployment Benefits	2,150,000
Pension Liability	11,121,139
Compensated Absences - Long Term	2,052,587
Total Long-Term Liabilities	<u>15,323,726</u>

Total Liabilities 40,270,947

DEFERRED INFLOWS OF RESOURCES

1,054,373

NET POSITION

Net Investment in Capital Assets	3,272,572
Restricted:	
Medicaid Risk Reserve	49,540,249
Unrestricted	27,416,197
Total Net Position	<u>80,229,018</u>

Total Liabilities, Deferred Inflows of Resources, and Net Position \$ 121,554,338

See accompanying Notes to Financial Statements.

VAYA HEALTH
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2020

OPERATING REVENUES

Intergovernmental:	
Local	\$ 2,829,605
Federal	15,902,208
State	66,706,481
Medicaid	337,585,880
Other Income	<u>2,177,236</u>
Total Operating Revenues	<u>425,201,410</u>

EXPENSES

Personnel	40,216,843
Professional Services	1,266,052
Supplies and Materials	187,794
Current Obligations and Services	1,943,935
Fixed Charges and Expenses	4,601,112
Capital Outlay	153,570
Depreciation	411,318
Contracts and Grants	<u>370,280,253</u>
Total Expenses	<u>419,060,877</u>

OPERATING INCOME

6,140,533

NONOPERATING INCOME (LOSS)

Loss on Sale of Capital Assets	(429,072)
Interest Income	<u>312,941</u>
Total Nonoperating Loss	<u>(116,131)</u>

INCREASE IN NET POSITION

6,024,402

Net Position - Beginning of Year

74,204,616

NET POSITION - END OF YEAR

\$ 80,229,018

See accompanying Notes to Financial Statements.

**VAYA HEALTH
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Federal, State, and Local Agencies	\$ 426,960,242
Payments to Suppliers	(8,152,463)
Payments to Employees	(36,472,303)
Payments for Contracted Services	(375,964,341)
Other Receipts and Payments, Net	1,482,889
Net Cash Provided by Operating Activities	<u>7,854,024</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(80,086)</u>
Net Cash Used by Capital and Related Financing Activities	(80,086)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	<u>312,941</u>
Net Cash Provided by Investing Activities	<u>312,941</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

8,086,879

Cash and Cash Equivalents - Beginning of Year

94,274,333

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 102,361,212

Cash and Cash Equivalents

\$ 52,820,963

Restricted Cash and Cash Equivalents

49,540,249

Total Cash and Cash Equivalents

\$ 102,361,212

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 6,140,533
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	411,318
Change in Assets and Liabilities:	
Decrease in Accounts Receivable	3,953,826
Increase in Prepaid Expenses and Other Assets	(302,347)
Decrease in Pension Related Accounts	3,495,320
Decrease in Other Postemployment Benefits Liability	(392,000)
Decrease in Accounts Payable and Accrued Expenses	(5,684,088)
Decrease in Deferred Revenue	(17,758)
Increase in Compensated Absences	249,220
Net Cash Provided by Operating Activities	<u>\$ 7,854,024</u>

See accompanying Notes to Financial Statements.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 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 22-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.

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020.

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.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 and two other postemployment benefits 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 pension item and two other postemployment benefits items that meets this criterion; see Note 2 for further detail.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 undercollateralization, 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, 2020, the Organization's deposits had a carrying amount of \$87,189,268 and a bank balance of \$93,390,845. Of the bank balance, \$500,000 was covered by Federal Depository Insurance; \$92,890,845 in interest bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2020, the Organization had \$775 of cash on hand.

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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, 2020, the Organization had the following investments, which are included within cash and cash equivalents on the statement of net position, measured at fair value:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	<u>\$ 15,171,170</u>	<u>\$ 15,171,170</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2020, the Organization’s investments and maturities are as follows:

	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>
NC Capital Management Trust*	<u>\$ 15,171,170</u>	<u>\$ 15,171,170</u>	<u>\$ -</u>	<u>\$ -</u>

*Because the NC Capital Management Trust Term Portfolio had a duration of 0.15 years, it was presented as an investment with a maturity of less than 6 months.

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

Receivables at June 30, 2020 were as follows:

	Government	Other Providers	Total
General	\$ 6,577,649	\$ 1,478,324	\$ 8,055,973
Less: Allowance for Doubtful Accounts	-	(587,549)	(587,549)
Total	<u>\$ 6,577,649</u>	<u>\$ 890,775</u>	<u>\$ 7,468,424</u>

4. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balance
Capital Assets not Being Depreciated:					
Land	\$ 471,000	\$ -	\$ -	\$ -	\$ 471,000
Total Capital Assets not Being Depreciated	471,000	-	-	-	471,000
Capital Assets Being Depreciated:					
Buildings	271,699	-	-	-	271,699
Vehicles	55,702	-	-	-	55,702
Computer Equipment	3,624,148	-	892,540	61,840	2,793,448
Office Furniture	436,629	-	-	-	436,629
Leasehold Improvements	3,485,618	80,086	59,822	(61,840)	3,444,042
Total Capital Assets Being Depreciated	7,873,796	80,086	952,362	-	7,001,520
Less: Accumulated Depreciation for:					
Buildings	67,927	13,585	-	-	81,512
Vehicles	50,111	5,591	-	-	55,702
Computer Equipment	2,843,264	121,471	478,420	123	2,486,438
Office Furniture	425,157	7,598	-	-	432,755
Leasehold Improvements	925,461	263,073	44,870	(123)	1,143,541
Total Accumulated Depreciation	4,311,920	411,318	523,290	-	4,199,948
Capital Assets, Net	<u>\$ 4,032,876</u>	<u>\$ (331,232)</u>	<u>\$ 429,072</u>	<u>\$ -</u>	<u>\$ 3,272,572</u>

In addition, the Organization acquired \$153,571 of minor capital assets that were below the capitalization threshold of \$5,000.

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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, 2020 were as follows:

	Vendors	Accrued Wages and Benefits	Incurred but not Reported Claims	Total
Payables	\$ 6,736,631	\$ 2,816,488	\$ 15,126,897	\$ 24,680,016

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.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020 was 9.0% 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 \$2,394,000 for the year ended June 30, 2020.

At June 30, 2020, the Organization reported a liability of approximately \$11,121,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, 2019, the Organization's proportion was 0.407%.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020, the Organization recognized pension expense of approximately \$5,129,000. At June 30, 2020, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 1,904,220	\$ -
Changes of Assumptions	1,812,560	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	271,260	-
Changes in Proportion and Differences between Organization Contributions and Proportionate Share of Contributions	116,692	144,373
Organization Contributions Subsequent to the Measurement Date	<u>2,394,438</u>	<u>-</u>
Total	<u>\$ 6,499,170</u>	<u>\$ 144,373</u>

Deferred outflows of resources of approximately \$2,394,000 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 2,026,157
2021	606,000
2022	1,034,947
2023	<u>293,255</u>
Total	<u>\$ 3,960,359</u>

Actuarial Assumptions: The total pension liability in the December 31, 2018 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 8.1%, including inflation and productivity factor
Investment Rate of Return	7.00%, net of pension plan investment expense, including inflation

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2018 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, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
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	<u>100.0 %</u>	

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Organization's Proportionate Share of the Net Pension Liability (Asset)	\$ 25,436,066	\$ 11,121,139	\$ (777,475)

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.

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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, 2019, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently	
Receiving Benefit Payments	2
Inactive Plan Members Entitled to but not yet	
Receiving Benefit Payments	-
Active Plan Members	435
Total	437

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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 \$2,150,000 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases	2.50%
Discount Rate	3.13%
Healthcare Cost Trend Rates	6.50% for fiscal year-end 2020, 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-2019.

Discount Rate: The discount rate used to measure the total OPEB liability has been set equal to 3.13% and represents the Municipal GO AA 20-year yield curve rate as of July 1, 2019.

Changes in the Total OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)-(b)
Balance - June 30, 2019	\$ 2,542,000	\$ -	\$ 2,542,000
Changes for the Year:			
Service Cost	410,000	-	410,000
Interest	107,000	-	107,000
Contributions - Employer	-	11,000	(11,000)
Differences between Expected and Actual Experience	(1,041,000)	-	(1,041,000)
Benefit Payments	(11,000)	(11,000)	-
Other Changes	143,000	-	143,000
Net Changes	(392,000)	-	(392,000)
Balance - June 30, 2020	<u>\$ 2,150,000</u>	<u>\$ -</u>	<u>\$ 2,150,000</u>

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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 (2.13%) or 1-percentage-point higher (4.13%) than the current discount rate:

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Net OPEB Liability	\$ 2,477,000	\$ 2,150,000	\$ 1,866,000

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 (5.50%) or 1-percentage-point higher (7.50%) than the current trend rate:

	1% Decrease (5.50%)	Current Trend Rate (6.50%)	1% Increase (7.50%)
Net OPEB Liability	\$ 1,768,000	\$ 2,150,000	\$ 2,621,000

For the year ended June 30, 2020, under GASB 75, the Organization's OPEB expense is \$397,000. At June 30, 2020, the Organization reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 27,000	\$ 891,000
Changes of Assumptions	122,000	19,000
Total	\$ 149,000	\$ 910,000

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ (127,000)
2022	(127,000)
2023	(127,000)
2024	(127,000)
2025	(129,000)
Thereafter	<u>(124,000)</u>
Total	<u><u>\$ (761,000)</u></u>

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.

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 \$1,000,000 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.

**VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

3. Risk Management (Continued)

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, 2020, the long-term obligations of the Organization consisted of the following:

	Balance July 1, 2019	Net Increase	Balance June 30, 2020	Amounts Due within One Year
Compensated Absences	\$ 2,028,367	\$ 249,220	\$ 2,277,587	\$ 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.

VAYA HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,171,884
2022	1,140,375
2023	1,149,444
Total	<u>\$ 3,461,703</u>

Total rent expense for all operating leases amounted to \$1,245,372 for the year ended June 30, 2020.

Health Insurance

During fiscal year 2020, the Organization, began to self-insure its employees' health plan with Blue Cross Blue Shield of North Carolina (BCBSNC). BCBSNC has contracted with the Organization to supervise and administer the program. The Organization insures for excessive and unexpected health claims and is liable for claims not to exceed \$125,000 for each employee per plan. As of June 30, 2020, a provision for estimates of the cost for claims not reported but incurred during the year ended June 30, 2020 was approximately \$647,000. This provision is included in accounts payable and other current liabilities in the accompanying statement of net position. A deposit to cover claims of approximately \$727,000 is included in other assets in the accompanying statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service Cost	\$ 410,000	\$ 399,000	\$ 389,000
Interest	107,000	88,000	74,000
Differences between Expected and Actual Experience	(1,041,000)	39,000	-
Changes of Assumptions	143,000	(27,000)	-
Benefit Payments	(11,000)	(79,000)	(79,000)
Net Change in Total OPEB Liability	<u>(392,000)</u>	<u>420,000</u>	<u>384,000</u>
Total OPEB Liability - Beginning	<u>2,542,000</u>	<u>2,122,000</u>	<u>1,738,000</u>
Total OPEB Liability - Ending	<u><u>\$ 2,150,000</u></u>	<u><u>\$ 2,542,000</u></u>	<u><u>\$ 2,122,000</u></u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 11,000	\$ 79,000	\$ 79,000
Benefit Payments, including Refunds of Employee Contributions	(11,000)	(79,000)	(79,000)
Administrative Expense	-	-	-
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Organization's Net OPEB Liability - Ending	<u><u>\$ 2,150,000</u></u>	<u><u>\$ 2,542,000</u></u>	<u><u>\$ 2,122,000</u></u>
Plan Fiduciary Net Position as a % of the Total OPEB Liability	0.00%	0.00%	0.00%
Covered Payroll	\$ 24,788,000	\$ 24,710,000	\$ 24,710,000
Organization's Net OPEB Liability as a Percentage of Covered Payroll	8.67%	10.29%	8.59%
Schedule of Employee Contributions	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 11,000	\$ 79,000	\$ 79,000
Contributions in Relation to the Actuarially Determined Contribution	11,000	79,000	79,000
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expected Covered Payroll	\$ 24,788,000	\$ 24,710,000	\$ 24,710,000
Contributions as a Percentage of Covered Payroll	0.04%	0.32%	0.32%

Notes to Schedule:

Benefit Changes: None

Changes of Assumptions: None

The Organization implemented GASB 75 during fiscal year 2018. As such, only three years of information is available.

**VAYA HEALTH
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
YEAR ENDED JUNE 30, 2020**

Local Government Employees' Retirement System

	2020*	2019*	2018*	2017*	2016*	2015*
Organization's Proportion of the Net Pension (Asset) Liability (%)	0.402730%	0.402780%	0.422090%	0.399020%	0.361400%	-0.296340%
Organization's Proportion of the Net Pension (Asset) Liability (\$)	\$ 11,121,139	\$ 9,555,324	\$ 6,448,371	\$ 8,468,546	\$ 1,621,946	\$ (1,747,654)
Organization's Covered Payroll	26,225,253	26,784,025	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 Payroll	42.41%	35.68%	24.15%	34.12%	7.34%	-10.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset**	90.86%	91.63%	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, 2020**

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 2,394,438	\$ 2,045,568	\$ 2,022,194	\$ 1,935,776	\$ 1,655,609	\$ 1,562,643
Contributions in Relation to the Contractually Required Contribution	<u>2,394,438</u>	<u>2,045,568</u>	<u>2,022,097</u>	<u>1,954,467</u>	<u>1,673,466</u>	<u>1,562,643</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97</u>	<u>\$ (18,691)</u>	<u>\$ (17,857)</u>	<u>\$ -</u>
Organization's Covered Payroll	\$ 26,604,904	\$ 26,225,253	\$ 26,784,025	\$ 26,700,357	\$ 24,821,723	\$ 22,101,861
Contributions as a Percentage of Covered Payroll	9.00%	7.80%	7.55%	7.25%	6.67%	7.07%

**SUPPLEMENTAL SCHEDULES
FOR
NC DIVISION OF HEALTH BENEFITS REPORTING**

**VAYA HEALTH
SUPPLEMENTAL SCHEDULE
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS
JUNE 30, 2020**

ASSETS

Cash and Cash Equivalents	\$ 52,820,963
Restricted Cash and Cash Equivalents	49,540,249
Accounts Receivable, Net of Allowance for Uncollectible Accounts and Contractual Allowances	7,468,424
Prepaid Expenses and Deposits	1,028,567
Other Assets	775,393
Total Assets	<u>\$ 111,633,596</u>

LIABILITIES

Accounts Payable	\$ 6,736,631
Accrued Expenses	2,816,488
Liability for Claims Incurred, but not Reported	15,126,897
Total Liabilities	<u>24,680,016</u>

FUND BALANCES

Nonspendable	1,803,960
Restricted:	
Stabilization of State Statute	7,468,424
Medicaid Risk Reserve	49,540,249
Committed	5,096,414
Unassigned	23,044,533
Total Fund Balances	<u>86,953,580</u>
Total Liabilities and Fund Balances	<u>\$ 111,633,596</u>

Amounts Reported in the Statement of Net Position are Different Because:

Fund Balance	\$ 86,953,580
Capital Assets Used in Governmental Activities are not Financial Resources and, therefore, are not Reported in the Funds	3,272,572
Deferred Inflows and Outflows are not Reported in the Funds	5,593,797
Pension Liabilities are not a Financial Resource, and therefore, are not Reported in the Funds	(13,271,139)
Deferred Liabilities for Revenue and Rent is not Due and Payable in the Current Period and, therefore, is not Reported in the Funds	(42,205)
Liability for Compensated Absences is not Due and Payable in the Current Period and, therefore, is not Reported in the Funds	(2,277,587)
Total	<u>\$ 80,229,018</u>

**VAYA HEALTH
SUPPLEMENTAL SCHEDULE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
State and Federal	\$ 61,650,244	\$ 86,995,234	\$ 82,608,689	\$ (4,386,545)
Local	4,432,117	4,937,845	2,829,605	(2,108,240)
Medicaid	311,591,729	335,491,557	337,585,880	2,094,323
Other Income	674,509	480,909	2,472,419	1,991,510
Total Revenues	<u>378,348,599</u>	<u>427,905,545</u>	<u>425,496,593</u>	<u>(2,408,952)</u>
EXPENDITURES				
Personnel and Professional Services	40,569,869	40,860,937	38,130,355	2,730,582
Supplies	259,119	264,869	187,794	77,075
Current Obligations	2,773,044	2,309,169	1,943,935	365,234
Fixed Expenses	7,686,528	6,051,465	4,601,112	1,450,353
Capital Outlay	285,200	228,700	233,656	(4,956)
Contracts	<u>338,690,502</u>	<u>388,072,018</u>	<u>370,280,253</u>	<u>17,791,765</u>
Total Expenditures	<u>390,264,262</u>	<u>437,787,158</u>	<u>415,377,105</u>	<u>22,410,053</u>
REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES	(11,915,663)	(9,881,613)	10,119,488	20,001,101
OTHER FINANCING SOURCES				
Appropriated Fund Balance	<u>5,556,648</u>	<u>5,096,414</u>	<u>-</u>	<u>(5,096,414)</u>
Change in Fund Balance	<u>\$ (6,359,015)</u>	<u>\$ (4,785,199)</u>	10,119,488	<u>\$ 14,904,687</u>
Fund Balance - Beginning			<u>76,834,092</u>	
FUND BALANCE - ENDING			<u>\$ 86,953,580</u>	

**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, 2020**

Net Change in Fund Balances - Total Governmental Funds	\$ 10,119,488
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.	(331,232)
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.	(249,221)
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.	(3,103,315)
Deferred revenues are shown as revenue on the modified accrual basis	(42,205)
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.	<u>(369,113)</u>
Increase in Net Position	<u><u>\$ 6,024,402</u></u>

**VAYA HEALTH
SUPPLEMENTAL SCHEDULE
SCHEDULE OF COMMITTED FUND BALANCES
JUNE 30, 2020**

State Services	\$ 720,915
Administrative Funding	<u>4,375,499</u>
Total	<u><u>\$ 5,096,414</u></u>

**VAYA HEALTH
SUPPLEMENTAL SCHEDULE
STATEMENT OF NET POSITION – MEDICAID AND NON-MEDICAID – FULL ACCRUAL BASIS
JUNE 30, 2020**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 67,464,438	\$ (14,643,475)	\$ 52,820,963
Accounts Receivable, Net	5,269,608	2,198,816	7,468,424
Prepaid Expenses	614,919	413,648	1,028,567
Other Assets	643,225	132,168	775,393
Total Current Assets	<u>73,992,190</u>	<u>(11,898,843)</u>	<u>62,093,347</u>
NONCURRENT ASSETS			
Restricted Cash and Cash Equivalents	49,540,249	-	49,540,249
Capital Assets, Net of Accumulated Depreciation	2,706,195	566,377	3,272,572
Total Noncurrent Assets	<u>52,246,444</u>	<u>566,377</u>	<u>52,812,821</u>
Total Assets	126,238,634	(11,332,466)	114,906,168
DEFERRED OUTFLOWS OF RESOURCES			
Total Assets and Deferred Outflows of Resources	<u>\$ 131,753,603</u>	<u>\$ (10,199,265)</u>	<u>\$ 121,554,338</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable and Other Current Liabilities	\$ 7,853,439	\$ 1,699,680	\$ 9,553,119
Liability for Claims Incurred, but not Reported	14,635,345	491,552	15,126,897
Deferred Revenue	4	42,201	42,205
Compensated Absences - Current Portion	186,648	38,352	225,000
Total Current Liabilities	<u>22,675,436</u>	<u>2,271,785</u>	<u>24,947,221</u>
LONG-TERM LIABILITIES			
Other Postemployment Benefits	1,783,526	366,474	2,150,000
Pension Liability	9,225,507	1,895,632	11,121,139
Compensated Absences - Long Term	1,702,717	349,870	2,052,587
Total Long-Term Liabilities	<u>12,711,750</u>	<u>2,611,976</u>	<u>15,323,726</u>
Total Liabilities	35,387,186	4,883,761	40,270,947
DEFERRED INFLOWS OF RESOURCES			
Total Liabilities, Deferred Inflows of Resources, and Net Position	874,652	179,721	1,054,373
NET POSITION			
Net Investment in Capital Assets	2,706,195	566,377	3,272,572
Restricted:			
Medicaid Risk Reserve	49,540,249	-	49,540,249
Unrestricted	43,245,321	(15,829,124)	27,416,197
Total Net Position	<u>95,491,765</u>	<u>(15,262,747)</u>	<u>80,229,018</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 131,753,603</u>	<u>\$ (10,199,265)</u>	<u>\$ 121,554,338</u>

**VAYA HEALTH
SUPPLEMENTAL SCHEDULE
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION – MEDICAID AND
NON-MEDICAID – FULL ACCRUAL BASIS
YEAR ENDED JUNE 30, 2020**

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
OPERATING REVENUES			
Intergovernmental:			
Local	\$ -	\$ 2,829,605	\$ 2,829,605
Federal	-	15,902,208	15,902,208
State	-	66,706,481	66,706,481
Medicaid	337,585,880	-	337,585,880
Other Income	70,544	2,106,692	2,177,236
Total Revenues	<u>337,656,424</u>	<u>87,544,986</u>	<u>425,201,410</u>
EXPENSES			
Personnel	32,297,517	7,919,326	40,216,843
Professional Services	1,086,117	179,935	1,266,052
Supplies and Materials	155,287	32,507	187,794
Current Obligations and Services	1,547,183	396,752	1,943,935
Fixed Charges and Expenses	3,943,984	657,128	4,601,112
Capital Outlay	127,394	26,176	153,570
Depreciation	341,208	70,110	411,318
Contracts and Grants	290,864,639	79,415,614	370,280,253
Total Expenses	<u>330,363,329</u>	<u>88,697,548</u>	<u>419,060,877</u>
OPERATING INCOME (LOSS)	7,293,095	(1,152,562)	6,140,533
NONOPERATING INCOME (LOSS)			
Loss on Sale of Capital Assets	-	(429,072)	(429,072)
Interest Income	-	312,941	312,941
Total Nonoperating Income (Loss)	<u>-</u>	<u>(116,131)</u>	<u>(116,131)</u>
INCREASE (DECREASE) IN NET POSITION	7,293,095	(1,268,693)	6,024,402
Net Position - Beginning of Year	<u>88,198,670</u>	<u>(13,994,054)</u>	<u>74,204,616</u>
NET POSITION - END OF YEAR	<u>\$ 95,491,765</u>	<u>\$ (15,262,747)</u>	<u>\$ 80,229,018</u>

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
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 *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 Vaya Health (the Organization), as of and for the year ended June 30, 2020, 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 30, 2020.

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

Charlotte, North Carolina
October 30, 2020



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 and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended June 30, 2020. 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the Audit Manual for Governmental Auditors in North Carolina and the State Single Audit Implementation Act. 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal and state program is not modified with respect to these matters. The Organization's responses to the noncompliance findings in our audit are described in the accompanying corrective action plan. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Area Board of Directors
Vaya Health

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Charlotte, North Carolina
October 30, 2020

**VAYA HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

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)? x yes _____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.267	Continuum of Care Program
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.788	State Opioid Response Grant

Dollar threshold used to distinguish between Type A and Type B programs:

 \$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**VAYA HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section I – Summary of Auditors’ Results (Continued)

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

CFDA Number(s)	Name of State Project
536998	Single Stream Funding
5369PB	Crisis Services – Local Psych Inpatient (3-way)
536996010	Community Based Services
53690P/Q	Alcohol and Drug Abuse Treatment Centers
5369DR001-003	State Disability Rights
536635	Wilkes County Facility Based Crisis Funds
536975	Adult MH/Adult SU Comprehensive Case Management Pilot Funds

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*.

**VAYA HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section III – Findings and Questioned Costs – Major Federal Programs

2020 – 001

Federal Agency: U.S. Department of Health and Human Services

Federal Program Title: Block Grant for Community Mental Health Services

CFDA Number: 93.958

Pass-Through Agency: North Carolina Department of Health and Human Services

Pass-Through Number(s): N/A

Award Period: July 1, 2019 to June 30, 2020

Type of Finding: Other Matter

Criteria or Specific Requirement: Services billed through NC Tracks are required to be supported by local documentation for the claim date of service.

Condition: During our testing, we noted that services billed through NC Tracks were reimbursed for program participants whose provider was not able to produce documentation for the dates of service selected.

Questioned Costs: \$179.95

Context: The identified finding represented 2 of 25 of the medical records sampled.

Cause: The provider did not maintain sufficient records to support the program service billed.

Effect: A service was reimbursed that was not able to be substantiated by the provider.

Repeat Finding: The finding is not a repeat of a finding in the immediately prior year.

Recommendation: The Organization should design controls to ensure an adequate review process is in place to ensure that services billed through NC Tracks are supported by adequate provider documentation.

Views of Responsible Officials: There is no disagreement with the audit finding.

**VAYA HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2020 – 002

Federal Agency: U.S. Department of Health and Human Services

Federal Program Title: Block Grant for Community Mental Health Services

CFDA Number: 93.958

Pass-Through Agency: North Carolina Department of Health and Human Services

Pass-Through Number(s): N/A

Award Period: July 1, 2019 to June 30, 2020

Type of Finding: Other Matter

Criteria or Specific Requirement: In order to prevent unauthorized changes to the NC Tracks billing system, individuals access levels must be reviewed for appropriateness.

Condition: During our testing, we noted that one employee had access to areas of the NC Tracks system that were not necessary to perform their job functions and outside of the Organization's access policy.

Questioned Costs: None

Context: The identified finding represented 1 of 17 of the employees sampled.

Cause: The individual had access to additional functions in NC Tracks that were not necessary to perform their job functions.

Effect: Unauthorized changes could have been made in the system.

Repeat Finding: The finding is not a repeat of a finding in the immediately prior year.

Recommendation: The Organization should design controls around an adequate review process to ensure that employee access rights established in the NC Tracks system are appropriate based on the employee's role at the Organization.

Views of Responsible Officials: There is no disagreement with the audit finding.

Section IV – Prior Year Findings

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

**VAYA HEALTH
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2020**



Vaya Health
200 Ridgefield Court, Suite 206
Asheville, NC 28806
1-800-893-6246
www.vayahealth.com

Department of Health and Human Services

Vaya Health respectfully submits the following corrective action plan for the year ended June 30, 2020.

Audit period: July 01, 2019– June 30, 2020

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF HEALTH AND HUMAN SERVICES

2020-001 Block Grants for Community Mental Health Services – CFDA No. 93.958

Recommendation: The Organization should design controls to ensure an adequate review process is in place to ensure that services billed through NC Tracks are supported by adequate provider documentation.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: Per policy, Vaya selects a sample of provider claims to be audited for proper documentation on an ongoing basis. Vaya will continue to expand sampling of population to ensure the integrity of claims submitted for payment.

Name(s) of the contact person(s) responsible for corrective action: Larry Hill CFO; Robert Webb, CIO

Planned completion date for corrective action plan: 12/31/2020

2020-002 Block Grants for Community Mental Health Services – CFDA No. 93.958

Recommendation: The Organization should design controls around an adequate review process to ensure that employee access rights established in the NC Tracks system are appropriate based on employee's role at the Organization.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: Subject matter experts are updating approval process and conducting review for all NC Tracks users to ensure appropriate level of access.

Name(s) of the contact person(s) responsible for corrective action: Larry Hill CFO; Robert Webb, CIO

Planned completion date for corrective action plan: 12/31/2020

If the Department of Health and Human Services has questions regarding this plan, please call Larry Hill, CFO at 828-225-2785 ext. 4734.

VAYA HEALTH
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	State Expenditures
Federal Awards				
<u>U.S. Department of Housing and Urban Development</u>				
Continuum of Care	14.267		\$ 834,804	\$ -
Total U.S. Department of Housing and Urban Development			<u>834,804</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
<u>Substance Abuse and Mental Health Service Administration</u>				
Passed-through the NC Dept. of Health and Human Services:				
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:				
Block Grant for Strategic Prevention Framework - Partnership for Success	93.243		457,542	-
Social Services Block Grant	93.667		451,169	-
Block Grants for Community Mental Health Services	93.958		2,469,866	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959		6,160,192	-
State Opioid Response (SORS) Funding	93.788		<u>6,363,437</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>15,902,206</u>	<u>-</u>
Total Federal Awards			16,737,010	-
State Awards				
NC Department of Health and Human Services				
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:				
Single Stream Funding and Other State Appropriations		536998		48,387,433
State Disability Rights		5369DR001-03	-	732,637
Community Based Crisis		536996010	-	550,000
Alcohol and Drug Abuse Treatment Centers		53690P/Q	-	9,486,834
Crisis Services - Local Psych Inpatient (3-way)		5369PB		4,770,348
Wilkes County Facility Based Crisis Funds		536635	-	931,703
Adult MH/Adult SU Comprehensive Case Management Pilot Funds		536975	-	1,496,203
Total State Awards			<u>-</u>	<u>66,355,158</u>
Total Federal and State Awards			<u>\$ 16,737,010</u>	<u>\$ 66,355,158</u>

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, 2020

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-percent de minimis cost rate.