TRILLIUM HEALTH RESOURCES

FINANCIAL STATEMENTS AND
COMPLIANCE REPORTS

As of and for the Year Ended June 30, 2021

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Area Board of Directors
Trillium Health Resources
Greenville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Trillium Health Resources (the "Agency") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information as listed in the table of contents, as well as the schedule of expenditures of federal and state awards, as required by Title 2 U.S*. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021, on our consideration of the Agency'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
October 28, 2021

As management of Trillium Health Resources (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Agency's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Agency exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $124,147,939 (net position).
- The Agency's total net position decreased approximately $2.6 million (or 2.09%) to $124.1 million, as compared to the previous year's-end. The overall decrease in net position is primarily related to our intentional over expenditure of state funds.
- Investment in capital assets decreased approximately $1.0 million (or 11.15%), compared to 2020, primarily due to the sales of buildings and equipment.
- Restricted net position increased approximately $10.3 million (17.74%), compared to 2020, as a result of the Medicaid waiver contract requirement to reserve 2% of Medicaid waiver revenues until 15% of such revenues have been reserved.
- Unrestricted net position decreased approximately $11.9 million (19.98%), compared to 2020.
- Operating revenues increased approximately $88.4 million (16.75%), and operating expenses increased approximately $85.1 million (15.9%) primarily related to COVID pandemic funds.

Overview of the Financial Statements

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

Overview of the Agency

The Agency's primary mission is to manage a publicly funded healthcare system which addresses the mental health, substance abuse, and intellectual and developmental disability needs of citizens in the 26-county catchment area. The Agency's operations are funded primarily through Medicaid waiver funds, as well as federal and state grants.

Government-Wide Financial Statements

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

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

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

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

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

Other Information

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

Statement of Net Position

A summary of the Agency's Statement of Net Position at June 30, 2021 is presented in Table A-1.

Table A-1
Condensed Statement of Net Position

	June 30,	
	2021	**2020**
Current and other assets	$ 161,391,281	$ 159,456,237
Capital assets	8,137,072	9,157,955
Total Assets	169,528,353	168,614,192
Deferred outflows of resources	7,830,528	7,239,991
Current liabilities	32,884,698	32,919,606
Long-term liabilities	18,830,227	14,989,386
Total Liabilities	51,714,925	47,908,992
Deferred inflows of resources	1,496,017	1,153,240
Net Position:		
Investment in capital assets	8,137,072	9,157,955
Restricted	68,292,192	58,000,533
Unrestricted	47,718,675	59,633,463
Total Net Position	$ 124,147,939	$ 126,791,951

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Agency exceeded liabilities by $124.1 million as of June 30, 2021. The Agency's net position decreased by approximately $2.6 million for the fiscal year ended June 30, 2021.

An additional portion of the Agency's net position represents resources that are subject to external restrictions on how they may be used. A percentage of the net position is restricted by the Medicaid B Waiver and C Waiver contract. The remaining balance represents the net investment in capital assets.

Statement of Revenues, Expenses, and Changes in Net Position

While the Statement of Net Position shows the net position of the Agency at the beginning and end of the fiscal year, the Statement of Revenues, Expenses, and Changes in Net Position provides answers to the nature and source of these changes.

Table A-2
Condensed Statement of Changes in Net Position

	Year Ended June 30,	
	2021	**2020**
Operating Revenues:		
Federal, state, and local funding	$ 113,157,521	$ 86,587,499
Medicaid waiver revenues	503,141,785	441,160,571
Other income	294,256	404,094
Total Operating Revenues	616,593,562	528,152,164
Operating Expenses:		
Personnel expenses	41,462,295	37,823,949
Administrative expenses	20,452,651	18,848,618
Depreciation expense	1,250,378	1,418,044
Medicaid waiver services, contracts, and grants	556,341,550	476,475,225
Other	110,702	77,206
Total Operating Expenses	619,617,576	534,643,042
Nonoperating Revenues:		
Interest income	380,002	1,530,236
Total Nonoperating Revenues	380,002	1,530,236
Change in net position	(2,644,012)	(4,960,642)
Total net position, beginning of year	126,791,951	131,752,593
Total net position, end of year	$ 124,147,939	$ 126,791,951

The Agency's total operating revenues increased by 16.75% in 2021, primarily related to COVID pandemic funds. The Agency's operating expenses increased by approximately 15.9% in 2021 due to services provided under the Medicaid waiver, state, and other grant related sources. Overall, total expenses exceeded revenues by approximately $2.6 million, resulting in a net decrease in net position for the current period.

Budgetary Analysis
Over the course of the year, the Agency revised the budget several times primarily due to revisions in expected funding from state, federal, and local sources, including the Medicaid waiver contract.

Capital Assets and Debt Administration

The Agency's investment in capital assets as of June 30, 2021, totaled $8.1 million, net of accumulated depreciation, as shown in Table A-3. These assets include land, leasehold improvements, furniture and other equipment, and vehicles. Capital assets increased during the year with new equipment additions.

Table A-3
Capital Assets

	June 30,	
	2021	**2020**
Land	$ 1,794,228	$ 1,971,840
Buildings	4,125,656	4,291,304
Other improvements	257,072	305,303
Equipment and other	1,960,116	2,589,508
Total Capital Assets	$ 8,137,072	$ 9,157,955

Additional information on the Agency's capital assets can be found in Note 5 of the basic financial statements.

At June 30, 2021, the Agency had no outstanding debt associated with these capital assets.

Economic and Other Factors and Next Year's Budget

A number of economic factors currently affect the financial and operational performance of the Agency for the future including the following:

- The Agency received Treasury Coronavirus Relief Funds in the amount of $13,145,393 for the year ended June 30, 2021.
- The Agency received a Single Stream increase in fiscal year 2021 in the amount of $11,150,565.
- The 1115 Waiver seeks to transition Medicaid services in North Carolina from fee-for-service to managed care. As such, services will be offered through two distinct products: Standard Plans and Behavioral Health ("BH") and IDD Tailored Plans. Standard Plans will serve most Medicaid and NC Health Choice enrollees, including adults and children. BH and IDD Tailored Plans will be specifically designed to serve the complex needs of individuals with significant behavioral health disorders, intellectual and developmental disabilities, substance use disorders, and traumatic brain injury—populations LME/MCOs have long served. Trillium was awarded a contract to be a Tailored Plan on July 26, 2021. Both Standard Plans and BH and IDD Tailored Plans will integrate physical health, behavioral health, and pharmacy services to best serve the needs of the individuals.

Requests for Information

The Agency's financial statement is designed to present users with a general overview of the Agency's finances and to demonstrate the Agency's accountability. If you have any questions about the report or need additional financial information, please contact Michelle Martin, Finance Director, Trillium Health Resources, 144 Community College Road, Ahoskie, North Carolina 29710.

TRILLIUM HEALTH RESOURCES
STATEMENT OF NET POSITION

JUNE 30, 2021

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 67,396,558
Accounts receivable	13,956,318
Prepaid expenses	5,799,420
Total Current Assets	87,152,296
Noncurrent Assets:	
Restricted cash and cash equivalents	68,292,192
Net other postemployment benefits asset	5,946,793
Capital Assets:	
Land and construction in progress	1,794,228
Other capital assets (net of accumulated depreciation)	6,342,844
Total Noncurrent Assets	82,376,057
Total Assets	169,528,353
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	7,598,522
Other postemployment benefits deferrals	232,006
Total Deferred Outflows of Resources	7,830,528
LIABILITIES	
Current Liabilities:	
Accounts payable and other current liabilities	6,868,529
Liability for claims incurred, but not reported	25,791,169
Compensated absences - current portion	225,000
Total Current Liabilities	32,884,698
Noncurrent Liabilities:	
Compensated absences - long term	2,622,943
Net pension liability	13,936,361
Net other postemployment benefits liability	2,270,923
Total Noncurrent Liabilities	18,830,227
Total Liabilities	51,714,925
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	347,111
Other postemployment benefits deferrals	1,148,906
Total Deferred Inflows of Resources	1,496,017
NET POSITION	
Investment in capital assets	8,137,072
Restricted:	
Medicaid risk reserve	68,292,192
Unrestricted	47,718,675
Total Net Position	$ 124,147,939

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

TRILLIUM HEALTH RESOURCES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

Operating Revenues:		
Federal, State, and Local Funding:		
Federal	$	30,131,528
State		77,138,111
Local		5,887,882
Total Federal, State, and Local Funding		113,157,521
Medicaid waiver services and administration		503,141,785
Other income		294,256
Total Operating Revenues		616,593,562
Operating Expenses:		
Personnel		41,462,295
Professional services		8,149,098
Supplies and materials		1,297,468
Current obligations and services		1,667,904
Fixed charges and expenses		9,338,181
Depreciation expense		1,250,378
Medicaid waiver services, contracts, and grants		556,341,550
Other		110,702
Total Operating Expenses		619,617,576
Operating Income		(3,024,014)
Nonoperating Income:		
Interest income		380,002
Changes in net position		(2,644,012)
Net position, beginning of year		126,791,951
Net position, end of year	$	124,147,939

TRILLIUM HEALTH RESOURCES
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:	
Cash received from federal, state, and local agencies	$ 608,505,799
Cash payments to suppliers of goods and services	(576,939,811)
Cash payments for employee salary and benefits	(38,579,780)
Other cash payments, net	868,927
Net cash flows from operating activities	(6,144,865)
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	205,472
Acquisition and construction of capital assets	(434,967)
Net cash flows from capital and related financing activities	(229,495)
Cash flows from investing activities:	
Proceeds from sale of investments	6,358,600
Interest earned on investments	380,002
Net cash flows from investing activities	6,738,602
Net increase in cash and cash equivalents	364,242
Cash and cash equivalents, beginning of year	135,324,508
Cash and cash equivalents, end of year	$ 135,688,750
Reconciliation of operating income to net cash flows from operating activities:	
Operating income	$ (3,024,014)
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	1,250,378
Changes in assets and liabilities:	
Accounts receivable	(7,793,507)
Prepaid expenses	574,671
Net other postemployment benefits asset	(710,566)
Deferred outflows of resources	(590,537)
Accounts payable and other current liabilities	(2,921,053)
Liability for claims incurred, but not reported	2,886,145
Net pension liability	3,153,315
Net other postemployment benefits liability	(36,316)
Compensated absences	723,842
Deferred inflows of resources	342,777
Net cash flows from operating activities	$ (6,144,865)

TRILLIUM HEALTH RESOURCES

STATEMENT OF FIDUCIARY NET POSITION – OPEB TRUST FUNDS

JUNE 30, 2021

ASSETS		
Cash and cash equivalents	$	11,411,089
Investments		4,983,036
		16,394,125
NET POSITION		
Restricted for postemployment benefits other than pensions	$	16,394,125

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

TRILLIUM HEALTH RESOURCES

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – OPEB TRUST FUNDS

YEAR ENDED JUNE 30, 2021

Additions:	
Net appreciation in fair value of investments	$ 1,017,074
Interest	51,926
Total Additions	1,069,000
Deductions:	
Administrative expense	(548)
Benefits expense	(720,648)
Total Deductions	(721,196)
Changes in net position	347,804
Net position, beginning of year	16,046,321
Net position, end of year	$ 16,394,125

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

Note 1—Summary of significant accounting policies

The basic financial statements of Trillium Health Resources (the "Agency") have been prepared in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Reporting Entity – The Agency is a Local Management Entity – Managed Care Organization ("LME-MCO") designated by and functioning under the control of the North Carolina Department of Health and Human Services to provide mental health, developmental disabilities, and substance abuse services in Beaufort, Bertie, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Currituck, Dare, Gates, Hertford, Hyde, Jones, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Tyrrell, and Washington counties. The services include reviewing and evaluating the area needs and programs in mental health, intellectual developmental disabilities, substance use and related fields, and developing jointly with the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, an annual plan for the effective development, use, and control of state and local services and resources in a comprehensive program of mental health service for the residents of the area. The Agency, which is governed by a 12-member Board of Directors appointed by the Boards of Commissioners from the 26-county catchment area, 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 Agency has no component units, which under generally accepted accounting principles are legally separate entities for which the Agency is financially accountable.

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

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

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

Note 1—Summary of significant accounting policies (continued)

The Agency reports the following major enterprise fund:

Enterprise Fund – The Enterprise Fund is the major operating fund of the Agency which accounts for all activity. The Agency reports the following fiduciary fund type:

OPEB Trust Fund – The Agency maintains two other postemployment benefits ("OPEB") Trust Funds. OPEB Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of the plans. The OPEB Trust Funds account for the Agency's contributions for healthcare coverage provided to qualified retirees.

The Enterprise Fund and Fiduciary Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Agency 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.

Measurement Focus and Basis of Accounting – The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, and all liabilities associated with the operation of this fund are included on the statement of net position. Net position is the result of deducting all the liabilities and deferred inflows of resources from all the assets and deferred outflows of resources. Total net position is segregated into three components: 1) net investment in capital assets, 2) restricted assets, and 3) unrestricted assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. Fiduciary funds are also accounted for using this measurement focus and basis of accounting.

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

When both restricted and unrestricted resources are available for use (use is approved by the third party who required the restriction), the Agency uses restricted resources first, then unrestricted resources as they are needed.

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Agency 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.

Note 1—Summary of significant accounting policies (continued)

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

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

Budgetary Data – The Agency maintains budgetary controls over all funds, as required by North Carolina General Statute 159-42 (c-d). An annual budget is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The budget was prepared on the modified accrual basis of accounting. The budget presented in this statement is the budget ordinance amended through June 30, 2021.

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

Deposits and Investments – All deposits of the Agency are made in board-designated official depositories and are secured as required by G.S. 159-31. The Agency may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Agency 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 Agency to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the state of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust ("NCCMT").

State law [G. S. 159-30.1] allows the Agency to establish and fund irrevocable trusts for the purpose pf paying postemployment benefits for which the Agency is liable. The Agency's other postemployment benefit trusts are managed by the Agency and operated in accordance with state laws and regulations. The trusts are not registered with the Security and Exchange Commission ("SEC"). G.S. 159-30(g) allows the Agency to make contributions to the Trusts. The Agency invests the proceeds in equities of the United States federal government or short-term fixed income -investments as detailed in G.S. 147-69.2(b) (1-6) and (8).

Note 1—Summary of significant accounting policies (continued)

The Agency's investments and non-money market investments are carried at fair value as determined by quoted market prices.

The NCCMT which consists of two SEC-registered funds, is authorized by G.S. 159-30(c)(8). One of these funds, the Government Portfolio, is a 2a7 fund which invests in treasuries and government agencies and is rated AAAm by Standard & Poor's ("S&P"). The second fund, the Term Portfolio, is a short-term bond fund investing in treasuries, government agencies, and money market instruments allowed under G.S. 159-30. The Term Portfolio has no rating. Both the Government Portfolio and the Term Portfolio are reported at fair value.

Ownership of the North Carolina Short-Term Investment Fund ("NC STIF") is determined on a fair market valuation basis as of fiscal year-end in accordance with the NC STIF operating procedures. NC STIF investments are valued by the custodian using Level 2 inputs which in this case involves inputs – other than quoted prices – included within Level 1 that are either directly or indirectly observable for the asset or liability. The NC STIF is valued at $1 per share. The NC STIF portfolio is unrated and had a weighted average maturity at June 30, 2020 of 1.3 years. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the NC STIF are distributed to participants of the fund.

Cash and Cash Equivalents – The Agency 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 for the statement of cash flows.

Restricted Assets – With the execution of the Medicaid waiver contract between the North Carolina Department of Health and Human Services ("NC DHHS"), the Department of Health Benefits ("DHB"), and the Agency, a restricted risk reserve account was established to maintain a minimum required balance for obligations of the contract. Withdraws and disbursements must be approved by the NC DHHS Secretary. The balance of the risk reserve account is $68,292,192 at June 30, 2021, and considered to be noncurrent. When both restricted and unrestricted resources are available for use (use is approved by the third party who required the restriction if applicable), the Agency uses restricted resources first, then unrestricted resources as they are needed.

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

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

Net OPEB Asset and Liability – Due to the merger of East Carolina Behavioral Health and CoastalCare, as of July 1, 2015, the Agency is adminstering two separate postemployment benefits plans, East Carolina Behavioral Health's OPEB Plan ("Plan A") and Trillium's OPEB Plan ("Plan B").

Plan A and Plan B's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Contributions are recognized when due, and the Agency will provide the contributions to the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States government and United States agency securities are valued at the last reported sales price. Administration costs of the plans are financed through investment earnings.

Note 1—Summary of significant accounting policies (continued)

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. Minimum capitalization costs for leasehold improvements, equipment, and vehicles is $5,000. 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 Agency are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and improvements	40
Furniture and equipment	10
Vehicles	5
Computers and software	3-5

The Agency evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Agency are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Agency are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Liability for Claims Incurred, but not Reported – Under the Medicaid 1915(b)(c) Waiver, the Agency pays providers for Medicaid claims in the Agency's 26-county catchment area. The Agency estimates claims incurred but not reported ("IBNR") and adds that to claims reported but not paid ("RBNP") as of June 30, reporting the total as liability for claims incurred, but not reported. RBNPclaims include all eligible federal, state, and local claims related to the year ended June 30, 2021, with the exception of Medicaid claims where the eligibilty is longer and the liability is not known. IBNR was estimated to be $25,791,169 as of June 30, 2021.

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

Compensated Absences –Effective January 1, 2021 all employees sick and vacation leave balances were transferred to one leave type entitled paid time off ("PTO"). 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 statement of net position.

Agency will pay out upon termination or retirement a total of 240 hours of PTO. Any hours in excess of 240 will be accumulated at the time of retirement and may be used in the determination of length of services for retirement benefit purposes. There is no accrual for PTO in excess of 240 hours as it will not be paid out to the employee.

Note 1—Summary of significant accounting policies (continued)

Net Pension Liability – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local 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 members' contributions are recognized in the period in which the contributions are due. The Agency's employer contributions are recognized when due and the Agency has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Net Position – Net position is classified into three parts: 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. 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.

Restricted for Medicaid Risk Reserve – This classification includes the portion of net position that is restricted by the Medicaid 1915 B Waiver and C Waiver.

Revenue and Expense Recognition – The Agency classifies its revenue as operating and nonoperating and its expenses as operating and nonoperating in the accompanying statement of revenues, expenses, and changes in net position. Transactions resulting from the primary purpose of the Agency, which is to provide mental health, developmental disabilities, and substance abuse services in Beaufort, Bertie, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Currituck, Dare, Gates, Hertford, Hyde, Jones, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Tyrrell, and Washington counties, are reported as operating revenues and expenses. Operating expenses generally result from providing services in connection with the Agency's principal ongoing operations. Operating revenues include monies received from federal, state, and local governments related to providing services to individuals who meet the respective eligibility criteria. Medicaid waiver revenues are recognized when monies are received. Grant revenues are recognized when allowable activities and costs in accordance with related grant requirements are incurred. All revenues and expenses not meeting the definition of operating revenues and expenses are reported as nonoperating revenues and expenses.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an expense until then. The Agency has two items that meet this criterion, contributions made to the pension and OPEB plans in 2021 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Agency has two items that meets the criterion for this category – deferrals of pension and OPEB expense.

Note 2—Cash and cash equivalents

Deposits – All of the Agency'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 Agency 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 Agency, these deposits are considered to be held by their agents in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Agency or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Agency under the Pooling Method, the potential exists for undercollaterization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Agency 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. The Agency complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the Agency's restrictesd and unrestricted deposits had a carrying amount of $118,395,754 and a bank balance of $120,831,838. Of the bank balance, $1,390,399 was covered by Federal Depository Insurance; $116,241,488 in interest-bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2021, the Agency had three certificates of deposits included in unrestricted cash and cash equivalents that had a bank balance and carrying amount of $28,704,094 respectively.

Restricted deposits include cash segregated for the Medicaid risk reserve, which by contractual arrangement with the Agency's funding agency may only be expended for Medicaid waiver or other purposes approved by the funding agency, and which management does not expect to draw on in 2021. This balance of $68,292,192 was held in a separate bank account at June 30, 2021.

Note 3—Investments

At June 30, 2021, the Agency's investments, including the investments held in the OPEB Trust Funds, and maturities were as follows:

Investment by Type	Valuation Measurement Method	Book Value at 6/30/2021	Maturity	Rating
NC Capital Management Trust:				
Term portfolio	Fair Value Level 1	$12,698,191	0.15 years	AAAm
North Carolina Short Term:				
Investment fund	Fair Value Level 2	4,751,779	1.3 years	Unrated
		$17,449,970		

Note 3—Investments (continued)

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Level of fair value hierarchy: Level 1 debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversly affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The NC STIF is unrated and had a weighted average maturity of 1.3 years at June 30, 2021.

Credit Risk – The Agency's investment in the North Carolina 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. The Agency's investments in U.S. Agencies (U.S. Treasury Bill and U.S Treasury Note) are rated AAA by S&P and the Agency's investments in other U.S. Agencies (Federal Home Loan Bank and Federal Farm Credit Bank) are rated AA+ by S&P.

Concentration of Credit Risk – The Agency places no limit on the amount the Agency may invest in any one issuer. One hundred percent of the Agency's investments are in the North Carolina Capital Management Trust Term Portfolio.

Note 4—Receivables

Receivables at June 30, 2021 were as follows:

	Accounts Receivable
Federal	$ 761,111
State	11,102,518
Local	1,550,198
Other receivables	542,491
	$ 13,956,318

Note 5—Capital assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 1,971,840	$ -	$ 177,612	$ 1,794,228
Construction in progress	-	-	-	-
Total capital assets not being depreciated	1,971,840	-	177,612	1,794,228
Capital assets being depreciated:				
Buildings	9,292,632	154,874	747,972	8,699,534
Leasehold improvements	380,437	10,000	27,860	362,577
Furniture and other equipment	9,929,886	270,093	22,016	10,177,963
Total capital assets being depreciated	19,602,955	434,967	797,848	19,240,074
Less accumulated depreciation for:				
Buildings	5,001,328	320,522	747,972	4,573,878
Leasehold improvements	75,134	30,371	-	105,505
Furniture and other equipment	7,340,378	899,485	22,016	8,217,847
Total accumulated depreciation	12,416,840	1,250,378	769,988	12,897,230
Capital assets being depreciated, net	7,186,115	$ (815,411)	$ 27,860	6,342,844
Capital assets, net	$ 9,157,955			$ 8,137,072

Note 6—Payables

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

	Vendors	Compensated Absenses	Incurred but not Reported Claims	Total
Payables	$ 6,868,529	$ 225,000	$ 25,791,169	$ 32,884,698

Note 7—Retirement plan

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

Note 7—Retirement plan (continued)

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

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

Contributions – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Agency employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Agency's contractually required contribution rate for the year ended June 30, 2021, was 8.99% of compensation 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 Agency were $2,840,295, for the year ended June 30, 2021.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the Agency reported a liability of $13,936,361 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Agency's proportion of the net pension liability was based on a projection of the Agency'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, 2021, the Agency's proportion was 0.39000% (measured at June 30, 2020), which was a decrease of 0.00485% from its proportion measure as of June 30, 2020 (measured as of June 30, 2019).

Note 7—Retirement plan (continued)

For the year ended June 30, 2021, the Agency recognized pension expense of $4,631,669. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,759,918	$ -
Changes of assumptions	1,037,139	-
Net difference between projected and actual earnings on pension plan investments	1,961,170	-
Changes in proportion and differences between Agency contributions and proportionate share of contributions	-	347,111
Agency contributions subsequent to the measurement date	2,840,295	-
	$ 7,598,522	$ 347,111

$2,840,295 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2022	$ 1,191,563
2023	1,662,229
2024	976,917
2025	580,407
	$ 4,411,116

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

Inflation	3%
Salary increases	3.5% to 8.10%, including inflation and productivity factor of 3.50%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

The plan actuary currently uses mortality rates based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table that vary by age, gender, employee group (i.e., general, law enforcement officer) and health status (i.e., disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

Note 7—Retirement plan (continued)

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study as of December 31, 2014.

Future ad hoc 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 assets class as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternative	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 asset (liability) and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

Note 7—Retirement plan (continued)

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Agency'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%)
Agency's proportionate share of the net pension liability (asset)	$ 28,275,359	$ 13,936,361	$ 2,019,646

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

Note 8—Deferred compensation plan

The Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits eligible employees to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. In accordance with GASB Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the Agency's deferred compensation plan requires all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries.

Note 9—Other postemployment benefits

Due to the merger of East Carolina Behavioral Health and CoastalCare, as of July 1, 2015, the Agency is adminstering two separate postemployment benefits plans that are in trusts, East Carolina Behavioral Health's OPEB plan (Plan A) and Trillium's OPEB Plan (Plan B).

Summary of Significant Accounting Policies – Each plan's financial statement is prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Contributions are recognized when due, and the Agency will provide the contributions to the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States government and United States agency securities are valued at the last reported sales price. Administration costs of the plans are financed through investment earnings.

Note 9—Other postemployment benefits (continued)

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

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

Plan A

Plan Description – In addition to providing pension benefits, the Agency has elected to provide healthcare benefits, through a single employer defined benefit plan, to specified retirees of the Agency who have at least 20 years of continuous service with the North Carolina LGERS, which the final 10 years of service must be with the Agency. Six participants have been grandfathered to be eligible with 10 years of employment due to a merger. Pre-65 coverage is the same as the sponsor's group health coverage for active employees. Medicare supplement and drug coverage are offered to post-65 retirees only with no spousal coverage offered. Retired employees meeting the criteria, discussed herein, will be provided hospitalization in the same manner as the active Agency employees. The Agency pays 100% of the retiree premium costs. Per board action, this benefit is no longer available for employees hired after July 1, 2007. A separate report was not issued for the plan.

Membership of the plan consisted of the following at June 30, 2021:

	General Employees
Retirees and dependents receiving benefits	53
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	20
	73

Benefits Provided – The Agency's Plan provides healthcare benefits for retirees. For employees over the age of 65, the Agency pays the cost of coverage for employees' benefits through private insurers.

Contributions – The Agency's board established the contribution requirements of plan members which may be amended by the board. The board establishes rates based on an actuarially determined rate. For the years ended June 30, 2021 and 2020, the Agency contributed $-0-, and $814,755, respectively. The Agency's obligation to contribute to the plan is established and may be amended by the Agency's board.

Note 9—Other postemployment benefits (continued)

The following are the Agency's contributions to the plan based on years of creditable service as of June 30, 2021:

Years of Creditable Service	Date Hired Pre-July 1, 2007	Date Hired On or after July 1, 2020
Less than 10 years	0.00%	0.00%
10-20 years	40.74%	0.00%
More than 20 years	59.26%	0.00%

A resolution was adopted by the board in December 2010 to establish an irrevocable trust account to hold funds for future benefits. During fiscal year 2012, the Agency elected to fund the healthcare benefits in full, based on the unfunded actuarial accrued liability in the July 1, 2009 actuarial valuation report, by depositing funds into the irrevocable trust account with Reliance Trust Company. The Agency made no contributions during the year ended June 30, 2021. The plan is accounted for as a trust fund.

Investment Policy – The Agency's policy in regard to the allocation of invested assets is established and may be amended by the board by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Agency discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spands. Investments are valued at fair value.

The following was the board's adopted asset allocation policy as of June 30, 2021:

Asset Class	Target Allocation 2021 and 2020	Long-Term Expected Real Rate of Return 2021	2020
Fixed income	100%	3.50%	2.30%

For the year ended June 30, 2021, the annual money weighted rate of return on investments, net of investment expense, was 3.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of the Agency – The components of the net OPEB liability of the Agency at June 30, 2021 were as follows:

Total OPEB liability	$	7,741,372
Plan fiduciary net position		5,470,449
Net OPEB liability	$	2,270,923
Plan fiduciary net position as a percentage of the total OPEB liability		70.67%

Note 9—Other postemployment benefits (continued)

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary scale	2.50%
Investment rate of return	3.50%
Healthcare cost trend rates	5.38% for fiscal year end 2020 and 0.00% for fiscal year end 2021 (to reflect actual experience), then 6.25% for fiscal year end 2022, decreasing 0.25% per year to an ultimate rate of 5.00%

Total OPEB liabilities were rolled forward to June 30, 2021 for the employer and the plan, respectively, utilizing update procedures incorporating the actuarial assumptions.

Mortality rates were based on the RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2018. For general employees, rates are adjusted by 108% (male) and 81% (female) for ages under 78 and by 124% (male) and 113% (female) for age 78 and older.

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the major target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30 are presented above.

The discount rate used to measure the total OPEB liability at June 30, 2021 was 2.82% which was a change from the discount rate of 2.86% at June 30, 2020. Based on a projection of the plan's cash flow, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. It was assumed that contributions would be made at rates equal to the actuarially determined contribution rates after the plan's fiduciary net position is exhausted. Therefore, the discount rate incorporates a municipal bond index rate which was 3.5% as of June 30, 2021 per the S&P Municipal Bond 20-Year High Grade Rate Index. As of June 30, 2020, the S&P Municipal Bond 20-Year High Grade rate was 2.30%.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of the Agency, as well as what the Agency's net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current discount rate:

	1% Decrease (1.82 percent)	Discount Rate (2.82 percent)	1% Increases (3.82 percent)
Net OPEB liability	$ 3,424,336	$ 2,270,923	$ 1,334,248

Note 9—Other postemployment benefits (continued)

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

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB liability	$ 1,232,040	$ 2,270,923	$ 3,555,885

Changes in Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2021, the Agency reported a net OPEB liability of $2,270,923. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. The total OPEB liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

At June 30, 2021, the components of the net OPEB liability of the Agency, measured as of June 30, 2020 were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Postion (b)	Net OPEB Liability (a)-(b)
Balances at June 30, 2020	$ 8,240,029	$ 5,932,790	$ 2,307,239
Changes for the year:			
Service cost	117,427	-	117,427
Interest	230,997	-	230,997
Differences between expected and actual experience	(240,467)	-	(240,467)
Contributions - employer	-	-	-
Net investment income	-	102,963	(102,963)
Benefit payments	(565,254)	(565,254)	-
Changes of benefit terms	-	-	-
Administrative expense	-	(50)	50
Other changes	(41,360)	-	(41,360)
Net changes	(498,657)	(462,341)	(36,316)
Balances at June 30, 2021	$ 7,741,372	$ 5,470,449	$ 2,270,923

Changes of Assumptions – Changes of assumptions and other inputs reflect a changes in the discount rate from 2.86% 2020 to 2.82% in 2021. Medical claims cost and rates were changed based on most recent experience and changed to the current schedule. The Excise Tax of 40% on healthcare plans that are above the thresholds set by the Affordable Care Act as effective in 2022 and have been reflected.

Note 9—Other postemployment benefits (continued)

For the year ended June 30, 2021, the Agency recognized OPEB expense of $223,262. At June 30, 2021, the Agency 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	$ -	$ 122,427
Changes of assumptions	1,860	20,783
Net difference between projected and actual earnings on plan investments	48,337	-
Agency contributions subsequent to the measurement date	-	-
	$ 50,197	$ 143,210

Zero dollars reported as deferred outflows of resources related to OPEB resulting from Agency contributions subsequent to the measurement date will be recognized as a decrease in the net OPEB liability in the year ended June 30, 2021.

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

Years Ending June 30,	
2022	$ (118,348)
2023	20,195
2024	(277)
2025	5,417
	$ (93,013)

Plan B

Plan Description – The Agency administers a single-employer, defined benefit Employee Group Health Plan (the "Health Plan"). This plan provides postemployment healthcare benefits, including prescription drug coverage, to retirees of the Agency, provided they have participated in the LGERS for a minimum of 30 years of service and have at least 20 years of creditable service with the Agency, or for an employee retiring at the age of 60, with at least 25 years of service in the LGERS and have at least 20 years of service with the Agency. Upon merging with East Carolina Behaviorial Health in 2015, CoastalCare's plan was amended to include former CoastalCare employees and former East Carolina Behaviorial Health employees who were employed as of July 1, 2015 that were not already enrolled in Plan A. The Agency contributes an amount equal to the individual premium paid by the Agency for all individual employees. Retirees who qualify for coverage receive the same benefits as active employees. When a retiree becomes eligible for Social Security and/or Medicare, the coverage will end for the retiree. The Board of Directors may amend the benefit provisions. A separate financial report was not issued for the plan.

Note 9—Other postemployment benefits (continued)

Membership of the Employee Group Health Plan consisted of the following at July 1, 2020, the date of the latest actuarial valuation:

	General Employees
Retirees and dependents receiving benefits	11
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	219
	230

Benefits Provided – The Agency's Plan provides healthcare benefits for retirees. For employees over the age of 65, the Agency pays the cost of coverage for employees' benefits through private insurers.

Contributions – The Agency's board established the contribution requirements of plan members which may be amended by the board. The board establishes rates based on an actuarially determined rate. For the years ended June 30, 2021 and 2020, the Agency contributed $-0- and $966 per active employee, respectively. The Agency's obligation to contribute to the plan is established and may be amended by the Agency's board.

The following are the Agency's contributions to the Plan based on years of creditable service as of June 30, 2021:

Years of Creditable Service	Date Hired Pre-July 1, 2007	Date Hired On or after July 1, 2020
Less than 10 years	74.84%	0.00%
10-20 years	17.42%	0.00%
More than 20 years	7.74%	0.00%

The Agency pays the full cost of coverage for the health care benefits paid to qualified retirees. As of June 30, 2021 the plan is fully funded. For the current year, the Agency made no contributions. The Plan is accounted for as a trust fund.

Investment Policy – The Agency's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Agency discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spands. Investments are valued at fair value.

The following was the board's adopted asset allocation policy as of June 30, 2021:

Asset Class	Target Allocation 2021 and 2020	Long-Term Expected Real Rate of Return 2021	2020
Short Term Investment Fund (STIF)	70%		
Equity Index Fund (EIF)	20%		
Bond Index Fund (BIF)	10%		
	100%	3.50%	2.30%

Note 9—Other postemployment benefits (continued)

For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 3.5%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Asset of the Agency – The components of the net OPEB liability of the Agency at June 30, 2021 were as follows:

Total OPEB liability	$	4,629,078
Plan fiduciary net position		10,575,871
Net OPEB asset	$	5,946,793
Plan fiduciary net position as a percentage of the total OPEB liability		228.47%

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary scale	2.50%
Investment rate of return	3.50%
Healthcare cost trend rates	5.38% for fiscal year-end 2020 and 0.00% for fiscal year-end 2021 (to reflect actual experience), then 6.25% for fiscal year-end 2022, decreasing 0.25% per year to an ultimate rate of 5.00%

Total OPEB assets were rolled forward to June 30, 2021 for the employer and the plan, respectively, utilizing update procedures incorporating the actuarial assumptions.

Mortality rates were based on the RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2018. For general employees, rates are adjusted by 108% (male) and 81% (female) for ages under 78 and by 124% (male) and 113% (female) for age 78 and older.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period 2010-2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the major target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30 are presented above.

Note 9—Other postemployment benefits (continued)

The discount rate used to measure the total OPEB liability was 3.5% at June 30, 2021 which was a change from the discount rate of 2.57% at June 30, 2020. Based on a projection of the plan's cash flow, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. It was assumed that contributions would be made at rates equal to the actuarially determined contribution rates after the plan's fiduciary net position is exhausted. Therefore, the total OPEB liability was determined using a blend of the long-term expected rate of return on OPEB plan investments and a municipal bond index rate as of June 30, 2021.

Therefore, the discount rate incorporates a municipal bond index rate which was 3.5% as of June 30, 2021 per the S&P Municipal Bond 20-Year High Grade Rate Index. As of June 30, 2020, the S&P Municipal Bond 20-Year High Grade rate was 3.50%.

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate – The following presents the net OPEB asset of the Agency, as well as what the Agency's net OPEB asset would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current discount rate:

	1% Decrease (2.50 percent)	Discount Rate (3.50 percent)	1% Increases (4.50 percent)
Net OPEB asset	$ 5,490,970	$ 5,946,793	$ 6,373,941

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB asset of the Agency, as well as what the Agency's net OPEB asset would be if it were calculated using a healthcare cost trend rate that is one-percentage point lower or one-percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB asset	$ 6,643,493	$ 5,946,793	$ 5,101,575

Changes in Net OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2021, the Agency reported a net OPEB asset of $5,946,793. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2020. The total OPEB liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

Note 9—Other postemployment benefits (continued)

At June 30, 2021, the components of the net OPEB asset of the Agency, measured as of June 30, 2020 were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Postion (b)	Net OPEB Asset (a)-(b)
Balances at June 30, 2019	$ 5,107,056	$ 10,343,283	$ (5,236,227)
Changes for the year:			
Service cost	381,244	-	381,244
Interest	140,469	-	140,469
Differences between expected and actual experience	(536,314)	-	(536,314)
Contributions - employer	-	-	-
Net investment income	-	278,319	(278,319)
Benefit payments	(45,478)	(45,478)	-
Changes of benefit terms	-	-	-
Administrative expense	-	(253)	253
Other changes	(417,899)	-	(417,899)
Net changes	(477,978)	232,588	(710,566)
Balances at June 30, 2020	$ 4,629,078	$ 10,575,871	$ (5,946,793)

Changes of Assumptions – Changes of assumptions and other inputs reflect a changes in the discount rate from 2.57% 2020 to 3.5% in 2021. Medical claims cost and rates were changed based on most recent experience and changed to the current schedule. The Excise Tax of 40% on healthcare plans that are above the thresholds set by the Affordable Care Act as effective in 2022 and have been reflected.

For the year ended June 30, 2021, the Agency recognized OPEB expense of $164,176. At June 30, 2021, the Agency 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	$ 50,438	$ 478,334
Changes of assumptions	131,371	385,323
Net difference between projected and actual earnings on plan investments	-	142,039
Agency contributions subsequent to the measurement date	-	-
	$ 181,809	$ 1,005,696

Note 9—Other postemployment benefits (continued)

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

Years Ending June 30,		
2022	$	(130,232)
2023		(130,234)
2024		(110,544)
2025		(87,173)
2026		(79,036)
Thereafter		(286,668)
	$	(823,887)

Note 10—Supplemental retirement benefits

The Agency has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (the "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 Agency 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 Agency considers these contributions to be immaterial.

Note 11—Risk management

Under the Agencys' risk management program, the risk management program provides coverage for health insurance up to a maximum of $85,000 for each individual claim. The Agency purchases commercial insurance for individual medical claims in excess of $85,000 and aggregate claims in excess of $1,000,000 with a minimum aggregate deductible of $5,430,056. Settled claims have not exceeded this commercial coverage in any of the last three fiscal years.

The Agency participates in the program and makes payments to the risk management program based on actuarial estimates of the amounts needed to pay prior- and current-year claims and to establish a reserve for catastrophic losses. Amounts withheld from employees and the Agency's general funds are available to pay claims, claim reserves, and administrative costs of the program. The claims liability of $736,367 was reported at June 30, 2021 is based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statement and the amount of loss can be reasonably estimated.

Note 11—Risk management (continued)

Changes in the reported liability were as follows:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2020-2021	$ 303,630	$ 5,052,522	$ (4,619,785)	$ 736,367

Employees have the option to continue group coverage for a maximum of 18 months if terminated or hours worked are reduced, causing an employee to be ineligible for coverage. An employee who is disabled may continue for an additional 11 months. Covered dependents have the option to continue group coverage for a maximum of 36 months if their coverage is terminated due to employee's death, divorce, or legal separation, employee's entitlement to Medicare, or a dependent child ceases to be a dependent under the terms of the group's coverage. As the Agency is generally self-insured, actual claims paid for former employees will be different than premiums paid by these former employees for coverage continuance, but no assessment of net cost or net benefit to the Agency has been calculated. These expenditures are recognized in the fiscal year the claims service date relates to and premiums are received for. Claims are paid weekly and premiums are paid at the beginning of each month of covered service.

The Agency 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 Agency carries commercial insurance to cover substantially all risks of loss. The Agency obtains commercial general liability and professional liability coverage of $5 million in the aggregate with a $3 million limit per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits, director's, and officers' insurance of $2 million per policy period.

The Agency carries flood insurance with amounts of coverage of $500,000 for buildings and $500,000 for contents. There is a $2,000 deductible for New Hanover County offices and a $1,250 deductible for Camden, Perquimans, and Onslow County offices.

The Agency 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 Agency's employees that have access to $100 or more at a given time of the Agency's funds are performance bonded through a commercial surety bond. The Chief Executive Officer, the Executive Vice President, and the Finance Director are individually bonded for $300,000. The remaining employees that have access to funds are covered under a blanket bond of $250,000 with a deductible of $1,000.

Note 12—Commitments and contingencies

The Agency has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial.

No provision has been made in the accompanying financial statement for the future refund of grant monies, as the Agency does not anticipate any material refunds.

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

Note 13—Long-term obligations

The following is a summary of changes in the Agency's long-term obligations for the fiscal year ended June 30, 2021:

	Balance July 1, 2020	Increases	Decreases	June 30, 2021	Amounts Due within One Year
Compensated absences	$ 2,124,101	$ 302,931	$ 420,911	$ 2,847,943	$ 225,000
Net pension liability	10,783,046	2,840,295	313,020	13,936,361	-
Net OPEB liability	2,307,239	441,012	(477,328)	2,270,923	-
	$ 15,214,386	$ 3,584,238	$ 256,603	$ 19,055,227	$ 225,000

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

Note 14—Operating leases

The Agency leases certain operating facilities under noncancelable operating leases. Future lease payments due under these leases subsequent to June 30, 2021 are as follows:

Years Ending June 30,	
2022	$ 3,610,070
2023	3,076,504
2024	2,961,113
2025	2,961,137
2026	2,961,161
Thereafter	10,110,460
	$ 25,680,445

Total rent expense for all operating leases amounted to $936,633 for the year ended June 30, 2021.

Note 15—Economic dependence

The Agency receives approximately 17% of its revenue from state and federal (passed through the state) intergovernmental revenue, and 82% of its revenue from the Medicaid waiver contract, for the various programs the Agency administers. Any significant change, either increase or decrease, in funding for these programs could result in a material change in the operations of the Agency.

Note 16—Local grants

The Agency serves Beaufort, Bertie, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Currituck, Dare, Gates, Hertford, Hyde, Jones, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Tyrrell, and Washington counties. The counties' portion of the Agency's total revenue is included in local funds revenue. The actual amount of county general funds and county alcoholic beverage commission funds received during the year ended June 30, 2021 were as follows:

Pamlico County	$ 34,481
Washington County	30,000
Chowan County	36,156
Martin County	58,422
Beaufort County	184,657
Pasquotank County	97,945
Camden County	26,798
Perquimans County	31,340
Craven County	388,467
Tyrrell County	9,906
Bertie County	49,390
Northampton County	81,614
Pitt County	686,616
Hertford County	88,307
Dare County	411,040
Gates County	31,146
Jones County	23,961
Currituck County	68,591
Hyde County	13,393
Brunswick County	250,443
Carteret County	528,000
Nash County	188,589
New Hanover County	1,786,348
Pender County	102,035
Onslow County	600,000
Columbus County	80,237
	$ 5,887,882

Note 17—Pending accounting pronouncements

Management expects GASB Statement 87, *Leases* to have approximately $5,116,000 effect due to right-of-use liability.

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

Note 18—Subsequent events

Trillium was selected by the NC Department of Health and Human Services to serve as a Behavioral Health and Intellectual/Developmental Disability Tailored Plan. Individuals who need certain services to address a serious mental illness, serious emotional disturbance, severe substance use disorder, intellectual/developmental disability, or traumatic brain injury may be eligible to enroll in a Behavioral Health I/DD Tailored Plan. These plans will provide the same services as NC Medicaid Standard Plans with additional specialized services to serve individuals with significant behavioral health conditions, including those utilizing 1915(c) Home and Community-Based Services waivers and those utilizing state funded services.

Subsequent to June 30, 2021, Halifax County, North Carolina became a part of the Agency’s catchment area.

Management has evaluated the subsequent events through October 28, 2021, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

This section contains additional information required by the Governmental Accounting Standards Board.

- Schedule of Changes in Net OPEB Liability and Related Ratios for Plan A
- Schedule of Agency Contributions and Investment Returns (OPEB) for Plan A
- Schedule of Changes in Net OPEB Asset and Related Ratios for Plan B
- Schedule of Agency Contributions and Investment Returns (OPEB) for Plan B
- Schedule of Proportionate Share of Net Pension Liability – Local Governmental Employees' Retirement System
- Schedule of Contributions – Local Governmental Employees' Retirement System

TRILLIUM HEALTH RESOURCES
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2021

Plan A

Schedule of Changes in Net OPEB Liability and Related Ratios

	2021	2020
Total OPEB Liability:		
Service cost	$ 117,427	$ 138,943
Interest	230,997	268,661
Difference between expected and actual experience	(240,467)	(320,607)
Changes in assumptions	(41,360)	373,898
Benefit payments	(565,254)	(691,307)
Net Change in Total OPEB Liability	(498,657)	(230,412)
Total OPEB Liability - Beginning	8,240,029	8,470,441
Total OPEB Lliability - Ending	$ 7,741,372	$ 8,240,029
Plan Fiduciary Net Position:		
Contributions - employer	$ -	$ 814,755
Net investment income	102,963	159,864
Benefit payments	(565,254)	(691,307)
Administrative expense	(50)	(50)
Other expense	-	-
Net Change in Plan Fiduciary Net Position	(462,341)	283,262
Plan Fiduciary Net Position - Beginning	5,932,790	5,649,528
Plan Fiduciary Net Position - Ending	$ 5,470,449	$ 5,932,790
Net OPEB Liability - Ending	$ 2,270,923	$ 2,307,239
Plan fiduciary net position as a percentage of the total OPEB liability	70.67%	72.00%

*Plan measurement date is the reporting date. Employer measurement date is one year prior to reporting date.

Plan A

Schedule of Agency Contributions

	2021	2020
Actuarially determined contribution	$ 565,254	$ 691,307
Contributions in relation to the actuarially determined contribution	-	814,755
Contribution Deficiency (Excess)	$ 565,254	$ (123,448)

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Salary scale	2.50%
Healthcare cost trend rates	5.38% for fiscal year-end 2020 and 0.00% for fiscal year-end 2021 (to reflect actual experience), then 6.25% for fiscal year-end 2022, decreasing 0.25% per year to an ultimate rate of 5.00%
Investment rate of return	3.50%
Mortality	RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2020

Schedule of Investment Returns

	2021	2020
Annual money-weighted rate of return, net of investment expense	$ 230,997	$ 268,661

Plan B

Schedule of Changes in Net OPEB Asset and Related Ratios

	2021	2020
Total OPEB Liability:		
Service cost	$ 381,244	$ 453,346
Interest	140,469	143,634
Difference between expected and actual experience	(536,314)	4,498
Changes in assumptions	(417,899)	167,610
Benefit payments	(45,478)	(220,162)
Net Change in Total OPEB Liability	(477,978)	548,926
Total OPEB Liability - Beginning	5,107,057	4,558,131
Total OPEB Liability - Ending	$ 4,629,079	$ 5,107,057
Plan Fiduciary Net Position:		
Contributions - employer	$ -	$ 211,646
Net investment income	278,319	347,219
Benefit payments	(45,478)	(220,162)
Administrative expense	(253)	(362)
Other expense	-	-
Net Change in Plan Fiduciary Net Position	232,588	338,341
Plan Fiduciary Net Position - Beginning	10,343,284	10,004,943
Plan Fiduciary Net Position - Ending	$ 10,575,872	$ 10,343,284
Net OPEB Asset - Ending	$ 5,946,793	$ 5,236,227
Plan fiduciary net position as a percentage of the total OPEB asset	228.47%	202.53%

*Plan measurement date is the reporting date. Employer measurement date is one year prior to reporting date.

Plan B

Schedule of Agency Contributions

	2021	2020
Actuarially determined contribution	$ 45,478	$ 220,162
Contributions in relation to the actuarially determined contribution	-	211,646
Contribution Deficiency (Excess)	$ 45,478	$ 8,516

Notes to Schedule

Valuation date:
Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Salary scale	2.50%
Healthcare cost trend rates	5.38% for fiscal year-end 2020 and 0.00% for fiscal year-end 2021 (to reflect actual experience), then 6.25% for fiscal year-end 2022, decreasing 0.25% per year to an ultimate rate of 5.00%
Investment rate of return	3.50%
Mortality	RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2020

Schedule of Investment Returns

	2021	2020
Annual money-weighted rate of return, net of investment expense	$ 140,469	$ 143,634

TRILLIUM HEALTH RESOURCES
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

LAST SIX FISCAL YEARS

Schedule of Proportionate Share of Net Pension Liability
Local Governmental Employees' Retirement System
Current Fiscal Year June 30, *

	2021	2020	2019	2018	2017	2016	2015
Agency's proportion of the net pension liability (asset) (%)	0.39000%	0.39485%	0.39129%	0.40329%	0.3975%	0.3881%	0.2081%
Agency's proportion of the net pension liability (asset) ($)	$ 13,936,361	$ 10,783,046	$ 9,282,737	$ 6,161,154	$ 8,436,918	$ 1,741,819	$ (2,133,878)
Agency's covered-employee payroll	$ 26,137,179	$ 24,936,190	$ 23,447,019	$ 23,065,670	$ 21,626,839	$ 21,952,794	$ 20,871,250
Agency's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53.32%	43.24%	39.59%	26.71%	39.01%	7.93%	-10.22%
Plan fiduciary net position as a percentage of the total pension liability	88.61%	90.00%	92.00%	95.20%	107.70%	98.09%	102.64%

*The amount presented for the fiscal year was determined as of the prior fiscal year ended June 30.

TRILLIUM HEALTH RESOURCES
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

LAST SIX FISCAL YEARS

Schedule of Contributions
Local Governmental Employees' Retirement System
Current Fiscal Year June 30, *

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 2,840,295	$ 2,349,732	$ 1,942,529	$ 1,773,360	$ 1,686,100	$ 1,456,159	$ 1,582,230
Contributions in relation to the contractually required contribution	2,840,295	2,349,732	1,942,529	1,773,360	1,686,100	1,456,159	1,582,230
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agency's covered-employee payroll	$ 27,873,414	$ 26,137,179	$ 24,936,190	$ 23,447,019	$ 23,065,670	$ 21,626,839	$ 21,952,794
Contributions as a percentage of covered-employee payroll	10.19%	8.99%	7.79%	7.56%	7.31%	6.73%	7.21%

*The amount presented for the fiscal year was determined as of the prior fiscal year ended June 30.

SUPPLEMENTARY INFORMATION

TRILLIUM HEALTH RESOURCES
COMBINING SCHEDULE OF NET POSITION

JUNE 30, 2021

	Medicaid Related	Non-Medicaid Related	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 68,941,304	$ (1,544,746)	$ 67,396,558
Investments	8,860,045	(8,860,045)	-
Accounts receivable	12,796,438	1,159,880	13,956,318
Prepaid expenses	5,282,978	516,442	5,799,420
Total Current Assets	95,880,765	(8,728,469)	87,152,296
Noncurrent Assets:			
Restricted cash and cash equivalents	68,292,192	-	68,292,192
Net other postemployment benefits asset	-	5,946,793	5,946,793
Capital Assets:			
Land and construction in progress	-	1,794,228	1,794,228
Other capital assets (net of accumulated depreciation)	-	6,342,844	6,342,844
Total Noncurrent Assets	68,292,192	14,083,865	82,376,057
Total Assets	164,172,957	5,355,396	169,528,353
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	-	7,598,522	7,598,522
Other postemployment benefit deferrals	-	232,006	232,006
Total Deferred Outflows of Resources	-	7,830,528	7,830,528
LIABILITIES			
Current Liabilities:			
Accounts payable and other current liabilities	6,482,064	386,465	6,868,529
Liability for claims incurred, but not reported	25,791,169	-	25,791,169
Compensated absences - current portion	-	225,000	225,000
Total Current Liabilities	32,273,233	611,465	32,884,698
Noncurrent Liabilities:			
Compensated absences - long term	1,003,319	1,619,624	2,622,943
Net pension liability	-	13,936,361	13,936,361
Net other postemployment benefits liability	-	2,270,923	2,270,923
Total Noncurrent Liabilities	1,003,319	17,826,908	18,830,227
Total Liabilities	33,276,552	18,438,373	51,714,925
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	-	347,111	347,111
Other postemployment benefit deferrals	-	1,148,906	1,148,906
Total Deferred Inflows of Resources	-	1,496,017	1,496,017
NET POSITION			
Investment in capital assets	-	8,137,072	8,137,072
Restricted:			
Medicaid risk reserve	114,379,042	(46,086,850)	68,292,192
Unrestricted	16,517,363	31,201,312	47,718,675
Total Net Position	$ 130,896,405	$ (6,748,466)	$ 124,147,939

TRILLIUM HEALTH RESOURCES
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

	Medicaid Related	Non-Medicaid Related	Total
Operating Revenues:			
Federal, State, and Local Funding:			
Federal	$ -	$ 30,131,528	$ 30,131,528
State	-	77,138,111	77,138,111
Local	-	5,887,882	5,887,882
Total Federal, State, and Local Funding	-	113,157,521	113,157,521
Medicaid Waiver services and administration	503,141,785	-	503,141,785
Other income	46,762	247,494	294,256
Total Operating Revenues	503,188,547	113,405,015	616,593,562
Operating Expenses:			
Personnel	29,444,019	12,018,276	41,462,295
Professional services	5,517,762	2,631,336	8,149,098
Supplies and materials	97,187	1,200,281	1,297,468
Current obligations and services	1,347,149	320,755	1,667,904
Fixed charges and expenses	6,570,512	2,767,669	9,338,181
Depreciation expense	-	1,250,378	1,250,378
Medicaid Waiver services, contracts, and grants	450,340,766	106,000,784	556,341,550
Other	(3,020,656)	3,131,358	110,702
Total Operating Expenses	490,296,739	129,320,837	619,617,576
Operating Income	12,891,808	(15,915,822)	(3,024,014)
Nonoperating Income:			
Interest income	-	380,002	380,002
Total Nonoperating Income	-	380,002	380,002
Changes in net position	12,891,808	(15,535,820)	(2,644,012)
Net position, beginning of year	118,004,597	8,787,354	126,791,951
Net position, end of year	$ 130,896,405	$ (6,748,466)	$ 124,147,939

TRILLIUM HEALTH RESOURCES
COMBINING SCHEDULE OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

	Medicaid Related	Non-Medicaid Related	Total
Cash flows from operating activities:			
Cash received from federal, state, and local agencies	$ 496,820,917	$ 111,684,882	$ 608,505,799
Cash payments to suppliers of goods and services	(460,410,919)	(116,528,892)	(576,939,811)
Cash payments for employee salary and benefits	(34,131,575)	(4,448,205)	(38,579,780)
Other cash payments, net	638,314	230,613	868,927
Net cash flows from operating activities	2,916,737	(9,061,602)	(6,144,865)
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets	-	205,472	205,472
Acquisition and construction of capital assets	-	(434,967)	(434,967)
Net cash flows from capital and related financing activities	-	(229,495)	(229,495)
Cash flows from investing activities:			
Proceeds from sale of investments	-	6,358,600	6,358,600
Interest earned on investments	380,002	-	380,002
Net change in investments	6,998,541	(6,998,541)	-
Net cash flows from investing activities	7,378,543	(639,941)	6,738,602
Net increase (decrease) in cash and cash equivalents	10,295,280	(9,931,038)	364,242
Cash and cash equivalents at beginning of year	126,938,216	8,386,292	135,324,508
Cash and cash equivalents at end of year	$ 137,233,496	$ (1,544,746)	$ 135,688,750
Reconciliation of operating income to net cash flows from operating activities:			
Operating income (loss)	$ 8,531,496	$ (11,555,510)	$ (3,024,014)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	-	1,250,378	1,250,378
Changes in assets and liabilities:			
Accounts receivable	(6,320,868)	(1,472,639)	(7,793,507)
Prepaid expenses	591,552	(16,881)	574,671
Net other postemployment benefits asset	-	(710,566)	(710,566)
Deferred outflows of resources	-	(590,537)	(590,537)
Accounts payable and other current liabilities	1,882,646	(4,803,699)	(2,921,053)
Liability for claims incurred, but not reported	(1,050,220)	3,936,365	2,886,145
Net pension liability	-	3,153,315	3,153,315
Net other postemployment benefits liability	-	(36,316)	(36,316)
Compensated absences	(717,869)	1,441,711	723,842
Deferred inflows of resources	-	342,777	342,777
Net cash from operating activities	$ 2,916,737	$ (9,061,602)	$ (6,144,865)

TRILLIUM HEALTH RESOURCES
BALANCE SHEET (NON-GAAP)

JUNE 30, 2021

ASSETS	
Cash and Cash Equivalents:	
Restricted	$ 68,292,192
Unrestricted	67,396,558
Accounts Receivable:	
Client and third party	542,491
Due from other governments	13,413,827
Prepaid expenses	5,799,420
Total Assets	$ 155,444,488
LIABILITIES	
Accounts payable and other current liabilities	$ 7,093,529
Liability for claims incurred, but not reported	25,791,169
Total Liabilities	32,884,698
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues	410,813
Total Deferred Inflows of Resources	410,813
FUND BALANCES	
Nonspendable	5,799,420
Restricted:	
Stabilization of State Statute	15,343,177
Medicaid Risk Reserve	68,292,192
Committed	23,533,184
Unassigned	9,181,004
Total Fund Balances	122,148,977
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 155,444,488
Amounts Reported in the Schedule of Net Position are Different Because:	
Fund balance	$ 122,148,977
Accounts receivable not collected within 60 days after year-end is deferred in the fund	410,813
Capital assets are not financial resources and therefore are not reported in the fund	8,137,072
Assets to pay future other postemployment benefits is not reported in the fund	5,946,793
Deferred outflow for pension benefits	7,598,522
Deferred outflow for other postemployment benefits	232,006
Liability for compensated absences is not due and payable in the current period and, therefore, is not reported in the fund	(2,622,943)
Net pension liability	(13,936,361)
Net other postemployment benefits liability	(2,270,923)
Deferred inflow for pension benefits	(347,111)
Deferred inflow for other postemployment benefits	(1,148,906)
Total Net Position	$ 124,147,939

TRILLIUM HEALTH RESOURCES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP)

YEAR ENDED JUNE 30, 2021

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Operating Revenues:				
Intergovernmental:				
State and Federal	$ 59,803,611	$ 116,428,213	$ 107,269,639	$ (9,158,574)
Local	6,219,574	5,985,598	5,887,882	(97,716)
Medicaid	436,924,691	490,591,728	503,141,785	12,550,057
Other income	150,750	450,750	635,158	184,408
Total Operating Revenues	503,098,626	613,456,289	616,934,464	3,478,175
Operating Expenditures:				
Personnel	44,321,473	49,569,374	47,820,022	1,749,352
Supplies	197,231	240,731	197,967	42,764
Current obligations	2,128,981	2,260,248	1,667,904	592,344
Fixed expenses	8,174,547	10,766,687	9,338,181	1,428,506
Capital outlay	2,981,677	2,403,955	1,754,987	648,968
Other expenses	160,000	160,000	110,702	49,298
Contracts	457,923,211	542,181,309	556,341,550	(14,160,241)
Total Operating Expenditures	515,887,120	607,582,304	617,231,313	(9,649,009)
Operating Income (Expense)	(12,788,494)	5,873,985	(296,849)	(6,170,834)
Nonoperating Revenues:				
Interest income	1,000,000	1,000,000	380,002	(619,998)
Other Financing Sources (Uses):				
Appropriated fund balance	10,263,494	3,984,655	-	(3,984,655)
Revenues and other financing sources (uses) over (under) expenditures	$ (1,525,000)	$ 10,858,640	$ 83,153	$ (10,775,487)

Reconciliation of change in net position:	
Total revenues and other financing sources	$ 617,314,466
Total expenditures and other financing uses	(617,231,313)
Total Net Change in Fund Balance	83,153
Depreciation	(1,250,378)
Capital outlay expenditures	1,099,167
Agency's portion of collective pension expense	(4,631,669)
Contribution to Local Government Employees' Retirement System	2,840,298
Net other postemployment benefits expense	(387,438)
Change in accrued vacation	(467,056)
Bad debt expense	(340,902)
Decrease in available revenues	410,813
Subtotal	(2,727,165)
Change in Net Position	$ (2,644,012)

TRILLIUM HEALTH RESOURCES

SCHEDULE OF COMMITTED FUND BALANCES

JUNE 30, 2021

General Medicaid Reserve	$	22,413,842
Pugh Memorial		18,602
Capital Equipment		391,220
Building Sales Proceeds		709,520
	$	23,533,184

COMPLIANCE SECTION

Cherry Bekaert LLP
CPAs & Advisors

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

To the Area Board of Directors
Trillium Health Resources
Greenville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Trillium Health Resources (the "Agency"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statement, and have issued our report thereon dated October 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2021-01.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2020-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
October 28, 2021

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

To the Area Board of Directors
Trillium Health Resources
Greenville, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Trillium Health Resources (the "Agency") 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 North Carolina Local Government Commission, that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2021. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Agency 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 Agency's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
October 28, 2021

Cherry Bekaert LLP
CPAs & Advisors

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

To the Area Board of Directors
Trillium Health Resources
Greenville, North Carolina

Report on Compliance for Each Major State Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major State Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Agency 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 Agency's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
October 28, 2021

Part I – Summary of Audit Results

Financial Statement

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

Federal Awards

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

Identification of the major federal programs:

Program Name	CFDA Number
Coronavirus Relief Fund	21.019
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Opioid STR	93.788

The above programs are tested as part of a state identified unit cluster.

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

<u>State Awards</u>

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

Identification of major state programs:

<u>Program Name</u>

Single Stream Funding

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

Budgetary Compliance
Finding 2021-001

NONMATERIAL NONCOMPLIANCE

Criteria: The Organization is responsible for monitoring budget to actual expenditures and amending the budget as necessary to avoid overages.

Context: For Personnel and Contracts & Grants expenditures, total actual expenditures exceeded budgeted expenditures for the fiscal year ended June 30, 2021.

Effect: Actual expenditures reported in the financial statements are greater than budgeted expenditures

Cause: Projected expenditures for June 2021 were underestimated and the overage was not identified until after year-end.

Questioned Costs: There were no questioned costs related to this instance of noncompliance.

Recommendation: Monitoring procedures should be implemented to make sure actual expenditures are monitored in comparison to budget. Any amendments to the budget should be made prior to year-end.

Views of Responsible Officials: The Organization agrees with the finding and has implemented a corrective action plan

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

None reported.

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

None reported.

Section II – Financial Statement Findings

See the following page.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

Transforming Lives. Building Community Well-Being.

Trillium Health Resources

Response to control findings

Year ended June 30, 2021

-Response to Nonmaterial Finding 2021-001:

- For FY 20-21 the original budgeted amount for Medicaid revenues and expenditures was 385,891,887 based on estimated eligibility at the beginning of the year. However, actual revenues increased by approximately $60M. In July 2021, it was determined that actual revenue and expenditures exceeded the initial budgeted revenue and expenditures due to Medicaid revenues fluctuating more than typical as a result of an increase in eligibility and more access to services with the continuation approval of Appendix K. Member months fluctuated throughout the fiscal year, mostly increasing from as low as 220,000 per month and as high as 257,000 per month. This was an unprecedented year due to Trillium receiving additional funding related to the COVID-19 pandemic which spanned across 774 provider contracts, 3,509 provider sites, and impacted over 1 million provider contracted rates for 51,000 members in 26 counties.

  As a corrective action, management brought the overage to the Board and subsequently amended the fiscal year 2020-2021 budget accordingly. The amendment was approved by the Board on July 16, 2021. Management will more closely review revenues received and expenditures to ensure compliance in future years and take any recommended action to the Board when appropriate.

Status: Corrected as of July 16, 2021

TRILLIUM HEALTH RESOURCES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2020

None reported.

TRILLIUM HEALTH RESOURCES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2021

Program Name	CFDA Number	State/Pass-through Grantor's Number	Federal Expenditures	State Expenditures
FEDERAL AWARDS				
U.S. Department of Housing and Urban Development				
SNAP Grant	14.267		$ 827,730	$ -
Shelter Plus Care	14.267		138,807	-
Total U.S. Department of Housing and Urban Development			966,537	-
Coronavirus Relief Fund	21.019		13,145,393	-
U.S. Department of Health and Human Services				
Substance Abuse and Mental Health Service Administration				
Passed through NC Department of Health and Human Services:				
Division of Medical Health, Developmental Disabilities, and				
Substance Abuse Services:				
Substance Abuse and Mental Health Service-Projects of Regional and National Significance	93.243		1,299,120	-
Block Grant for Community Mental Health Services - Community Based Program-Mental Health	93.958		2,308,020	-
Social Services Block Grant Community Development Disabilities Services Developmental Disabilities	93.667		589,378	-
State Targeted Response to Opioid Crisis Grant	93.788		3,217,186	-
Block Grant for Prevention and Treatment of Substance Abuse - Community Based Programs Substance Abuse	93.959		10,231,905	-
Total U.S. Department of Health and Human Services			17,645,609	-
Total Federal Awards and State Matches			31,757,539	-
STATE AWARDS				
NC Department of Health and Human Services				
Division of Mental Health, Developmental Disabilities				
and Substance Abuse Services:				
Single Stream Funding			-	47,715,995
Multidisciplinary Evaluation			-	1,138
ADATC			-	7,054,502
Transition to Community Living Initiative (TCLI):				
Emergency/Transition Coordinator			-	180,000
Individual Placement Support-Supported Employment (IPS-SE)			-	276,136
Transition Year Stability Resource (TYSR)			-	178,245
Community Living Assistance (CLA)			-	482,360
Subsidy Administration			-	175,301
Bridge Housing			-	116,000
Diversion			-	238,237
Transition Management Services (TMS)			-	931,571
Community Assertvie Engagement			-	18,930
Emergency Housing			-	19,332
NC Disability Rights			-	544,641
Traumatic Brain Injury (TBI)			-	204,988
Children with Complex Needs			-	75,736
Crisis Services			-	7,106,209
Suicide Prevention			-	290,530
Total Division of Mental Health, Developmental			-	65,609,851
Total State Awards			-	65,609,851
Total Federal and State Awards			$ 31,757,539	$ 65,609,851

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Trillium Health Resources and 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") and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statement.

The Agency has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

The Agency has not contacted or made awards to any sub recipients.

Note 2—Summary of significant accounting policies

Expenditures reported in the schedule of expenditures of federal and state awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and State Single Audit Implementation Act, wherein certain types of expenditures are not allowable or are limited as to reimbursement.