

**ALBEMARLE REGIONAL HEALTH SERVICES  
ELIZABETH CITY, NORTH CAROLINA**

**Independent Auditor's Report  
Financial Statements  
June 30, 2019**

**ALBEMARLE REGIONAL HEALTH SERVICES  
ELIZABETH CITY, NORTH CAROLINA**

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**ALBEMARLE REGIONAL HEALTH SERVICES  
ELIZABETH CITY, NORTH CAROLINA  
June 30, 2019**

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ELIZABETH CITY, NORTH CAROLINA  
June 30, 2019**

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**MASON L. SPRUILL, CPA**  
CERTIFIED PUBLIC ACCOUNTANT

**521 South Hughes Boulevard**  
**Elizabeth City, North Carolina 27909**  
**(252)338-3860 FAX (252)338-6611**

The Honorable Members of the Board of Directors  
and Battle Betts, Health Director  
Albemarle Regional Health Services  
Elizabeth City, North Carolina

**Independent Auditor's Report**

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Albemarle Regional Health Services, as of and for the year then ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Albemarle Regional Health Services' basic financial statements as listed in the table of contents.

***Managements 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***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Albemarle Regional Health Services as of June 30, 2019, and the respective budgetary comparison for the General Fund, the Sanitary Fund, and the Transportation Program 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 (Pages 4-9), the Local Government Employees' Retirement System Schedules of the Proportionate Share of Net Pension Liability and Contributions (Page 44), the Other Postemployment Benefits Schedule of Changes in the Net OPEB Liability and Related Ratios (Page 45), Contributions, and Investment Returns (pages 46-47) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Albemarle Regional Health Services. The combining and individual fund statements, budgetary schedules, other schedules, as well as the accompanying Schedule of Expenditures of Federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules 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 my opinion, based on my audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are 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*, I have also issued my report dated December 22, 2019 on my consideration of Albemarle Regional Health Services' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of the report is to describe the scope of my 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 *Governmental Auditing Standards* in considering Albemarle Regional Health Services' internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Mark S. L. CPA". The signature is written in a cursive, flowing style.

December 22, 2019

## ALBEMARLE REGIONAL HEALTH SERVICES

### Management's Discussion and Analysis

As management of Albemarle Regional Health Services (ARHS), we offer readers of ARHS's financial statements this narrative overview and analysis of the financial activities of ARHS for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in ARHS's financial statements, which follow this narrative.

#### Financial Highlights

- The liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,477,835 (Exhibit 1 - *net position*).
- As of the close of the current fiscal year, ARHS's governmental funds (Exhibits 3 and 4) reported combined ending fund balances of \$8,765,877 a net increase of \$218,164. Approximately 12% of this total amount, or \$1,072,988 is restricted or non-spendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,343,186 or 41% percent of total general fund expenditures for the fiscal year.

#### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to ARHS's basic financial statements. ARHS's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of ARHS through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of ARHS.

#### Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the government-wide financial statements. They provide both short and long-term information about ARHS's financial status.

The next statements (Exhibits 3 through 6) are Fund Financial Statements. These statements focus on the activities of the individual parts of ARHS's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements. ARHS does not maintain any proprietary funds.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about ARHS's non-major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about ARHS's other post-employment benefit plan and ARHS's pension plan.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of ARHS's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about ARHS's financial status as a whole. The two government-wide statements report ARHS's net assets and how they have changed. Net assets are the difference between ARHS's total assets and total liabilities. Measuring net assets is one way to gauge ARHS's financial condition. The



government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of ARHS's basic services such as environmental health, women, infants and children's programs, adult health programs, other services and general administration. Women, infants and other children's programs include such programs as WIC, Family Planning, Child Health, Maternal, CDSA and Speech & Hearing. Patient fees, State and federal grant funds, and private grant funds finance most of these activities along with the other programs offered by ARHS.

ARHS does not report any business type activities and does not have any component units, and, therefore, none are reported in the government-wide statements.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

## **Fund Financial Statements**

The fund financial statements provide a more detailed look at ARHS's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. ARHS, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or ARHS's budget ordinance. All of the funds of ARHS can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of ARHS's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance ARHS's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

ARHS adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the area served by ARHS, the management of ARHS, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes ARHS to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well ARHS complied with the budget ordinance and whether or not ARHS succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. ARHS does not have any enterprise funds.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. ARHS maintains two agency funds.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 20 of this report.

**Other information** – In addition to the basic financial statements and the accompanying notes this report includes certain required supplementary information concerning ARHS's progress in funding its obligation to provide other

postemployment benefits to its employees. Required supplementary information can be found beginning on page 43 of this report.

### Government -Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. ARHS's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,477,835.

ARHS's net position increased by \$49,698 for the fiscal year ended June 30, 2019. A large portion of ARHS's net position, \$3,345,287, reflects ARHS's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. ARHS uses these capital assets to provide services to citizens in its coverage area; consequently, these assets are not available for future spending. Although ARHS's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the net position in the amount of \$270,609 represents resources that are subject to external restrictions on how they may be used. At June 30, 2019, ARHS had an unrestricted net position (deficit) of \$ (9,093,731).

ARHS's net assets and change in net position can be viewed in Figures 1 and 2 which follow.

**ARHS's Net Position**  
**Figure 1**

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
Current and other assets	\$ 9,797,581	\$ 11,046,094
Capital asset	<u>2,643,017</u>	<u>3,345,287</u>
Total assets	<u>12,440,598</u>	<u>14,391,381</u>
 Deferred outflows	 <u>1,334,883</u>	 <u>3,322,065</u>
 Long-term liabilities outstanding	 17,202,032	 20,126,545
Other liabilities	<u>630,183</u>	<u>715,745</u>
Total liabilities	<u>17,832,215</u>	<u>20,842,290</u>
 Deferred inflows	 <u>1,470,799</u>	 <u>2,348,991</u>
 Net position:		
Net investment in capital assets	2,858,617	3,345,287
Restricted	158,418	270,609
Unrestricted	<u>(8,544,568)</u>	<u>(9,093,731)</u>
Total net position	<u>\$ (5,527,533)</u>	<u>\$ (5,477,835)</u>

**ARHS's Changes in Net Position**

**Figure 2**

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
Revenues:		
Program revenues:		
Charges for services	\$ 7,897,540	\$ 8,647,952
Operating grants and contributions	7,747,374	8,675,462
Capital grants and contributions	354,339	818,933
General revenues:		
Investment earnings	45,208	98,008
Grants and contributions not restricted to specific programs	750,356	895,707
Gain (Loss) on disposal of fixed assets	(115,892)	149,210
Other	56,427	77,414
Total revenues	<u>16,735,352</u>	<u>19,362,686</u>
Expenses:		
Administration	1,704,538	1,786,473
Environmental health	3,944,826	4,502,581
Women, infants, and children's programs	6,754,145	7,590,612
Adult health	1,505,180	2,196,980
Transportation	2,274,694	2,520,611
Other services	1,158,736	1,063,421
Interest on long-term debt	-	-
Total expenses	<u>17,342,119</u>	<u>19,660,678</u>
Increase (decrease) in net position before special items	(606,767)	(297,992)
Special item – Realization of deferred gain	-	206,258
Special Item – Hertford County (Buy-In) installment	-	141,432
Increase (decrease) in net position after special items	(606,767)	49,698
Net position, beginning of year	<u>(4,920,766)</u>	<u>(5,527,533)</u>
Net position, end of the year	<u>\$ (5,527,533)</u>	<u>\$ (5,477,835)</u>

## Financial Analysis of ARHS's Funds

As noted earlier, ARHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** - The focus of ARHS's governmental funds is to provide information on near-term inflows outflows, and balances of usable resources. Such information is useful in assessing ARHS's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of ARHS. At the end of the current fiscal year, ARHS's fund balance available in the General Fund was \$5,343,186, while total fund balance for the General Fund reached \$7,322,443. ARHS has an available fund balance of 41% of general fund expenditures, while total fund balance represents 72% of that same amount.

At June 30, 2019, the governmental funds of ARHS reported a combined fund balance of \$8,765,877, a 2.5 percent increase over last year.

**General Fund Budgetary Highlights** - During the fiscal year, ARHS revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by \$2,818,898. This increase was primarily attributable due to an increase in grant awards and additional corresponding administrative fees associated with managing the grants.

### Capital Asset and Debt Administration

**Capital assets** - ARHS's capital assets for its governmental activities as of June 30, 2019, totals \$3,345,287 (net of accumulated depreciation). These assets include buildings, land, other improvements, equipment, and vehicles. Assets purchased and placed in service during the year ended June 30, 2019, totaled \$956,400.

#### ARHS's Capital Assets (Net of Depreciation)

Figure 3

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
Land	\$ 215,600	\$ 215,600
Buildings	712,429	687,736
Other improvements	322,883	322,635
Equipment	735,188	735,141
Vehicle and motor equipment	872,517	1,384,175
Total	<u>\$ 2,858,617</u>	<u>\$ 3,345,287</u>

Additional information on ARHS's capital assets can be found in the Notes to the Financial Statements.

**Long-term Debt.** As of June 30, 2019, ARHS had total long-term debt outstanding of \$20,126,545 all of which is debt backed by the full faith and credit of ARHS.

**ARHS's Outstanding  
Long-Term Debt**

**Figure 4**

	Governmental Activities	
	2018	2019
Compensated absences	\$ 536,158	\$ 526,994
Other postemployment benefits	15,175,427	17,423,402
Net pension liability	1,490,447	2,176,149
Total	\$ 17,202,032	\$ 20,126,545

ARHS's total long-term debt increased by \$2,924,513 during the past fiscal year primarily related to pension liability. Additional information regarding ARHS's long-term debt can be found in the Notes to the Financial Statements.

**Economic Factors and Next Year's Budgets and Rates**

In looking ahead to the 2019-2020 fiscal year, management made the following notes:

- Medicaid transformation slated to begin in February 2019 was suspended due to the FY19-20 North Carolina State Budget not passing in a timely manner. The official rollout date has not been announced however, work continues with selected Prepaid Health Plans (PHPs) and Medicaid providers. ARHS attested as a Tier 3 practice continuing with an integrated care model with the expansion of Adult Primary Care and Behavioral Health. As a Tier 3 provider care-management and value-based payments from health plans has the potential to increase revenue. However, once Medicaid Transformation is rolled out, the traditional Medicaid Cost Report will change creating fiscal uncertainty.
- The North Carolina stalemate of passing the State Budget has caused a threat to some of the current funding appropriated to ARHS in the FY 19-20 budget year. The stalemate has also held up a bill, which would increase Communicable Disease funding helping to cover costs.

**Requests for Information**

This report is designed to provide an overview of ARHS's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to ARHS Executive Director at Albemarle Regional Health Services, 711 Roanoke Avenue, Elizabeth City, North Carolina 27909.

## ALBEMARLE REGIONAL HEALTH SERVICES

Statement of Net Position  
June 30, 2019

	Primary Government
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 8,722,303
Accounts receivable, net	1,009,501
Note receivable, net	37,405
Due from Hertford County (Buy-In)	1,272,885
Inventory – land for resale	4,000
Restricted asset:	
Cash held in escrow	-
Capital assets:	
Land	215,600
Other capital assets, net of depreciation	3,129,687
Total Assets	<u>14,391,381</u>
<b>DEFERRED OUTFLOWS</b>	<u>3,322,065</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	715,745
Long-term liabilities:	
Due in more than one year	17,950,396
Net pension liability	2,176,149
Total Liabilities	<u>20,842,290</u>
<b>DEFERRED INFLOWS</b>	<u>2,348,991</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,345,287
Restricted for State Stabilization	270,609
Unrestricted	(9,093,731)
Total Net Position	<u>\$ (5,477,835)</u>

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

ALBEMARLE REGIONAL HEALTH SERVICES

Statement of Activities  
For the Year Ended June 30, 2019

Function / Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Primary Government					
Government Activities:					
Administration	\$ 1,786,473	\$ 101,401	\$ 756,642	\$ -	\$ (928,430)
Environmental health	4,502,581	4,139,868	67,150	-	(295,563)
Women, infants, and children's programs	7,590,612	2,869,877	4,600,409	-	(120,326)
Adult health	2,196,980	755,314	731,907	-	(709,759)
Transportation	2,520,611	638,693	1,335,166	818,933	272,181
Other services	1,063,421	142,799	1,184,188	-	263,566
Total governmental activity	<u>\$ 19,660,678</u>	<u>\$ 8,647,952</u>	<u>\$ 8,675,462</u>	<u>\$ 818,933</u>	<u>(1,518,331)</u>
General Revenues:					
Grants and contributions not restricted to specific programs					895,707
Gain/Loss on disposal of assets					149,210
Investment earnings					98,008
Miscellaneous, unrestricted					77,414
Total general revenues excluding special items					<u>1,220,339</u>
Special items:					
Realization of deferred gain from sale of Home Health operations					206,258
Hertford County Buy-In Installment					141,432
Total general revenues and special items					<u>1,568,029</u>
Change in net position					49,698
Net position – beginning of year					(5,527,533)
Net position - ending of year					<u>\$ (5,477,835)</u>

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

## ALBEMARLE REGIONAL HEALTH SERVICES

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**

	Major			Non-Major	Total
	General Fund	Sanitary Landfill	Transportation Program	Other Governmental Funds	
<b>ASSETS</b>					
Cash, including time deposits	\$ 7,695,119	\$ -	\$ 736,343	\$ 290,841	\$ 8,722,303
Restricted cash	-	-	-	-	-
Account receivable, net	244,527	449,601	291,160	24,213	1,009,501
Notes receivable, net	-	-	-	37,405	37,405
Due from Hertford County (Buy-In)	1,272,885	-	-	-	1,272,885
Inventory, land for resale	4,000	-	-	-	4,000
Due from other funds	127,193	-	-	-	127,193
Total Assets	\$ 9,343,724	\$ 449,601	\$ 1,027,503	\$ 352,459	\$ 11,173,287
<b>LIABILITIES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 456,809	\$ 175,110	\$ 77,948	\$ 5,878	\$ 715,745
Due to other funds	-	108,993	-	18,200	127,193
Total liabilities	456,809	284,103	77,948	24,078	842,938
<b>DEFERRED INFLOWS OF RESOURCES</b>	1,564,472	-	-	-	1,564,472
<b>FUND BALANCES</b>					
Restricted:					
Stabilization by State Statute	270,609	449,601	291,160	61,618	1,072,988
Transportation	-	-	573,805	-	573,805
Health Programs	-	-	-	199,016	199,016
Assigned for subsequent year's expenditures	1,708,648	-	84,590	40,894	1,834,132
Unassigned	5,343,186	(284,103)	-	26,853	5,085,936
Total fund balances	7,322,443	165,498	949,555	328,381	8,765,877
Total liabilities, deferred inflows of resources and fund balances	\$ 9,343,724	\$ 449,601	\$ 1,027,503	\$ 352,459	
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>					
Deferred income related to patient fees are not considered available and therefore are not reported in the funds					101,111
Deferred outflows of resources related to OPEB are not reported in the funds					1,450,677
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds					3,345,287
Net pension liability					(2,176,149)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Activities					616,295
Some liabilities, including post employment benefits, are not due and payable in the current period and therefore are not reported in the funds.					(17,950,396)
Deferred inflows of resources related to OPEB are not reported in the funds					(698,745)
Pension related deferrals					1,068,208
Net assets of governmental activities					\$ (5,477,835)

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



**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

	Major			Non-Major	Total Governmental Funds
	General Fund	Sanitary Fund	Transportation Program	Other Governmental Funds	
<b>REVENUES:</b>					
Federal and State grants	\$ 6,972,409	\$ 9,495	\$ 2,076,368	\$ -	\$ 9,058,272
Local appropriations	895,707	-	77,731	19,627	993,065
Other grants	338,693	-	-	73	338,766
Charges for services	4,348,570	3,374,184	630,973	266,162	8,619,889
Donations and fundraisers	5,272	-	-	-	5,272
Interest income	95,660	-	1,393	955	98,008
Miscellaneous	108,729	838	111,803	-	221,370
Total revenues	<u>12,765,040</u>	<u>3,384,517</u>	<u>2,898,268</u>	<u>286,817</u>	<u>19,334,642</u>
<b>EXPENDITURES:</b>					
Current					
General-administration	2,054,086	-	-	-	2,054,086
Environmental health	976,247	3,384,517	-	36,390	4,397,154
Women, infants, and children's programs	7,099,204	-	-	-	7,099,204
Adult health	1,825,831	-	-	226,053	2,051,884
Transportation	47,434	-	2,844,235	-	2,891,669
Other services	962,953	-	-	7,218	970,171
Total expenditures	<u>12,965,755</u>	<u>3,384,517</u>	<u>2,844,235</u>	<u>269,661</u>	<u>19,464,168</u>
Excess (deficiency) of revenues over expenditures	(200,715)	-	54,033	17,156	(129,526)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers from other funds	85,899	-	21,316	13,625	120,840
Transfers to other funds	(28,941)	-	(51,790)	(40,109)	(120,840)
Total other financing sources and uses	<u>56,958</u>	<u>-</u>	<u>(30,474)</u>	<u>(26,484)</u>	<u>-</u>
<b>SPECIAL ITEMS:</b>					
Hertford County Buy-In Installment	141,432	-	-	-	141,432
Realization of deferred gain from sale of of Home Health Operations	206,258	-	-	-	206,258
Total special items	<u>347,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347,690</u>
Net change in fund balance	203,933	-	23,559	(9,328)	218,164
Fund balances – beginning	7,118,510	165,498	925,996	337,709	8,547,713
Fund balances – ending	<u>\$ 7,322,443</u>	<u>\$ 165,498</u>	<u>\$ 949,555</u>	<u>\$ 328,381</u>	<u>\$ 8,765,877</u>

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

(Cont.)

## ALBEMARLE REGIONAL HEALTH SERVICES

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2019**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances – government fund	\$ 218,164
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	486,689
Cost of capital assets disposed of during the year, not recognized on modified accrual basis, net of depreciation	(19)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	616,295
Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities	368,518
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	28,063
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	9,164
Other postemployment benefits	(1,091,079)
Pension expense	(586,097)
	<hr/>
Total changes in net position of governmental activities	<u>\$ 49,698</u>

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

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**General Fund and Annually Budgeted Major Special Revenue Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual**  
**For the Year Ended June 30, 2019**

	General Fund			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Federal and State grants	\$ 5,628,987	\$ 7,217,449	\$ 6,972,409	\$ (245,040)
Local appropriations	655,581	895,707	895,707	-
Other grants	183,761	576,332	338,693	(237,639)
Charges for services	3,996,780	4,517,596	4,348,570	(169,026)
Interest income	50,000	75,000	95,660	20,660
Donations	5,845	5,595	5,272	(323)
Miscellaneous	12,280	64,453	108,729	44,276
Total revenues	<u>10,533,234</u>	<u>13,352,132</u>	<u>12,765,040</u>	<u>(587,092)</u>
<b>EXPENDITURES:</b>				
Current				
General government	2,328,481	2,964,501	2,054,086	910,415
Environmental health	940,331	1,040,457	976,247	64,210
Women, infants, and children	6,868,397	7,723,444	7,099,204	624,240
Adult health	1,154,989	2,172,819	1,825,831	346,988
Transportation	90,588	92,804	47,434	45,370
Other services	980,821	1,266,821	962,953	303,868
Total expenditures	<u>12,363,607</u>	<u>15,260,846</u>	<u>12,965,755</u>	<u>2,295,091</u>
Excess (deficiency of revenues over expenditures)	<u>(1,830,373)</u>	<u>(1,908,714)</u>	<u>(200,715)</u>	<u>1,707,999</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from other funds	133,005	138,767	85,899	(52,868)
Transfers to other funds	(26,145)	(28,897)	(28,941)	(44)
Total other financing sources and uses	<u>106,860</u>	<u>109,870</u>	<u>56,958</u>	<u>(52,912)</u>
<b>SPECIAL ITEMS:</b>				
Herford County Buy-In Installment	-	141,432	141,432	-
Realization of deferred gain from sale of Home Health Operations	-	-	206,258	206,258
Total special items	<u>-</u>	<u>141,432</u>	<u>347,690</u>	<u>206,258</u>
Fund balance appropriated	<u>1,723,513</u>	<u>1,657,412</u>	<u>-</u>	<u>(1,657,412)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>203,933</u>	<u>\$ 203,933</u>
Fund balances, beginning of year			<u>7,118,510</u>	
Fund balances, end of year			<u>\$ 7,322,443</u>	

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

## ALBEMARLE REGIONAL HEALTH SERVICES

**General Fund and Annually Budgeted Major Special Revenue Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual**  
**For the Year Ended June 30, 2019**

	Sanitary Landfill Program			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Federal and State grants	\$ -	\$ 9,495	\$ 9,495	\$ -
Local appropriations	-	-	-	-
Other grants	-	-	-	-
Charges for services	3,495,913	3,798,496	3,374,184	(424,312)
Miscellaneous	-	541	838	297
Total revenues	3,495,913	3,808,532	3,384,517	(424,015)
<b>EXPENDITURES:</b>				
Current				
Environmental health	3,440,179	3,384,517	3,384,517	-
Debt:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	3,440,179	3,752,798	3,384,517	-
Excess (deficiency of revenues over expenditures)	55,734	55,734	-	55,734
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers to other funds	(55,734)	(55,734)	-	(55,734)
Total other financing sources and uses	(55,734)	(55,734)	-	(55,734)
Excess revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	-	\$ -
Fund balances, beginning of year			165,498	
Fund balances, end of year			\$ 165,498	

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

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**General Fund and Annually Budgeted Major Special Revenue Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual**  
**For the Year Ended June 30, 2019**

	Transportation Program			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Federal and State grants	\$ 2,175,216	\$ 2,199,514	\$ 2,076,368	\$ (123,146)
Local appropriations	77,164	77,470	77,731	261
Other grants	-	-	-	-
Charges for services	602,408	623,000	630,973	7,973
Interest income	60	1,197	1,393	196
Miscellaneous	79,826	112,063	111,803	(260)
Total revenues	<u>2,934,674</u>	<u>3,013,244</u>	<u>2,898,268</u>	<u>(114,976)</u>
<b>EXPENDITURES:</b>				
Current				
Transportation	2,922,541	3,087,276	2,844,235	243,041
Debt:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>2,922,541</u>	<u>3,087,276</u>	<u>2,844,235</u>	<u>243,041</u>
Excess (deficiency of revenues over expenditures)	12,133	(74,032)	54,033	128,065
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from other funds	20,362	21,172	21,316	144
Transfers to other funds	(51,790)	(51,790)	(51,790)	120,441
Total other financing sources and uses	<u>(31,428)</u>	<u>(30,618)</u>	<u>(30,474)</u>	<u>144</u>
Fund balance appropriated	19,295	104,650	-	(104,650)
Total other financing sources and uses	<u>(12,133)</u>	<u>74,032</u>	<u>(30,474)</u>	<u>(104,506)</u>
Excess revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	23,559	<u>\$ 23,559</u>
Fund balances, beginning of year			<u>925,996</u>	
Fund balances, end of year			<u>\$ 949,555</u>	

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

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Statement of Fiduciary Net Position**

**Fiduciary Funds**

**Ended June 30, 2019**

	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ -	\$ 1,554,953
Restricted assets		
Investments:		
Cash and cash equivalents	445,088	-
Investments	<u>1,800,960</u>	<u>-</u>
Total assets	<u>2,246,048</u>	<u>1,554,953</u>
<b>Liabilities:</b>		
Due to governmental units	<u>-</u>	<u>1,554,953</u>
Total liabilities	<u>-</u>	<u>1,554,953</u>
<b>Net position:</b>		
Net position restricted for postemployment benefits other than pensions	<u>\$ 2,246,048</u>	<u>\$ -</u>

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

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Statement of Changes in Fiduciary Net Position**  
**OPEB Trust Fund**  
**For the Year Ended June 30, 2019**

	<u>OPEB Trust Fund</u>
Additions:	
Employer contributions	\$ 368,518
Investment income:	
Net appreciation(depreciation) in fair vaule of investments	100,054
Realized gain (loss) on sale of investments	(3,157)
Interest and dividends	21,747
Less investment expenses	<u>(192)</u>
Total additions	486,970
Deductions:	
Benefit Payments	<u>368,518</u>
Change in net position	118,452
Net position restricted for postemplment benefits other than pension	
Beginning of year	<u>2,127,596</u>
End of year	<u>\$ 2,246,048</u>

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

# ALBEMARLE REGIONAL HEALTH SERVICES

## Notes to the Financial Statements

June 30, 2019

### I. Summary of Significant Accounting Policies

The accounting policies of Albemarle Regional Health Services conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

Albemarle Regional Health Services (ARHS) is located in the Northeastern part of the state in the Albemarle area. ARHS is a district health department created in accordance with North Carolina General Statute 130A-36 and provides public health services to the populous of Pasquotank, Camden, Perquimans, Chowan, Currituck, Bertie, Gates and Hertford Counties. The governing body is a board of directors with 18 members appointed on an equitable, area wide representative basis. The Department is funded via local, state and federal funds and charges to patients. As required by generally accepted accounting principles, the financial statements present ARHS and its component units, legally-separate entities for which ARHS is financially accountable. As of June 30, 2019, ARHS had no component units.

#### B. Basis of Presentation and Basis of Accounting

##### **Basis of Presentation, Measurement Focus - Basis of Accounting**

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government net position (ARHS) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of ARHS. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. ARHS presents all of its activities as governmental.

The statement of activities presents a comparison between direct expenses and program revenues for each function of ARHS's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including unrestricted local county contributions, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about ARHS's funds - governmental, proprietary and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

ARHS reports the following major governmental funds:

*General Fund* – This is ARHS's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.



## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

*Sanitary Landfill Program* - This fund accounts for the operation and maintenance of the Perquimans-Chowan-Gates trash collection activities.

*Transportation Program* – The fund accounts for the operation and maintenance of the Inter-County Transportation Authority.

ARHS reports the following fund types:

*Trust Funds.* Trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans, defined contribution plans, or other post employment benefit plans. The Other Post Employment Benefit Trust Fund accounts for ARHS's contributions for healthcare coverage provided to qualified retirees.

*Agency Funds.* Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets that ARHS holds on behalf of others. ARHS maintains the following agency funds: Albemarle Regional Solid Waste Management Authority (ARSWMA) and Northeastern Albemarle Group Insurance (NEAG). These funds account for revenues received and expenses paid for these entities. The fund for ARSWMA is pooled in bank accounts maintained by ARHS. The fund for NEAG is separately maintained.

*Nonmajor Funds.* ARHS maintains five legally budgeted funds. NENCPPH Program, Septic Tank Program, Community Care, and the Medical Reserve Corp, are reported as nonmajor special revenue funds.

In accordance with North Carolina General Statutes, all funds of ARHS are maintained during the year using the modified accrual basis of accounting.

*Government-wide Fund Financial Statements* - The government-wide fund financial statements are reported using the economic resources measurement focus, except for agency funds which have no measurement focus. The government-wide fund 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 ARHS gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

*Governmental Fund Financial Statements* - Governmental funds are 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 governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

ARHS considers all revenues available if they are collected within 60 days after year-end, except patient fees which are not considered revenues until received. Uncollected patient fees are shown as a receivable on these financial statements and offset by deferred inflows of resources.

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

Intergovernmental revenues and sales and services (including patient fees) 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.

Under the terms of grant agreements, ARHS 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 assets available to finance the program. It is ARHS's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

*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 statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### C. Budgetary Data

ARHS's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and all Special Revenue Funds. All annual appropriations lapse at the fiscal year-end.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments are required for revisions that alter total expenditures of any fund. The governing board must approve all budget ordinance amendments. During the year, several 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.

#### D. Assets, Liabilities, and Fund Equity

##### 1. Deposits and Investments

All deposits of ARHS are made in board-designated official depositories and are secured as required by G.S. 159-31. ARHS may designate as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, ARHS 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 ARHS 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).

## **ALBEMARLE REGIONAL HEALTH SERVICES**

### **Notes to the Financial Statements**

**June 30, 2019**

ARHS's investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

#### **2. Cash and Cash Equivalents**

ARHS pools moneys from several funds, including the agency funds, to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

#### **3. Receivables & Allowance for Doubtful Accounts**

Receivables include amounts due from other governments and customers. All receivables are current and therefore due within one year.

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

#### **4. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due to/from other funds" (i.e. current portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### **5. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization cost is \$1,000 for all capital assets. The costs 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 ARHS are depreciated on a straight-line basis over the following estimated useful lives:

# ALBEMARLE REGIONAL HEALTH SERVICES

## Notes to the Financial Statements

June 30, 2019

	<u>Years</u>
Buildings	40
Sanitary Landfill industrial equipment	15
Building improvements	10
Leasehold improvements	10
Heavy vehicle/equipment	10
Utility trailers	10
Operating equipment	10
Communication equipment	10
Furniture	10
Transportation fare boxes	10
Buses	9
Portable buildings	6
Appliances	6
Computer equipment	5
Sanitary Landfill operating equipment	5
Vans	4
Automobiles	3
Light trucks	3

### 6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. ARHS has several items that meet this criterion – pension and contributions made to the pension and OPEB plan in the current fiscal year. In addition to liabilities, the statement of financial position can also 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. ARHS has several items that meet the criterion for this category – unearned grant funds, land held for resale, and other OPEB and pension related deferrals.

### 7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as another financing source.

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

#### 8. Compensated Absences

The vacation policy of ARHS provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For ARHS's government-wide financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as leave is earned.

The sick leave policies of ARHS provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since ARHS does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made by ARHS.

#### 9. Net Position/Fund Balance

##### Net Position

Net position in government-wide financial statements are classified net investment in capital assets, restricted; and unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

##### Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- Inventories-portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes, externally imposed by creditors, or imposed by laws.

- Restricted for stabilization of state statute – portion of fund balance that is restricted by state statute (G.S. 159-8(a)).
- Transportation - Portion of fund balance that is restricted to be used for transportation programs.
- Health Programs - Portion of fund balance that is restricted by revenue source for specific health services.

Committed Fund Balance – Portion of fund balance that can only be used for specific purpose imposed by majority vote of ARHS's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Assigned Fund Balance – Portion of fund balance that ARHS's governing board has budgeted.

- Subsequent year's expenditures-portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Unassigned Fund Balance – Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

ARHS has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, State funds, and local funds. Grant restrictions will guide how grant revenue is spent. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it's in the best interest of ARHS.

#### E. Reconciliation of Government-wide and Fund Financial Statements

##### 1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government – wide statement of net position. The net adjustment of \$(14,243,712) consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 7,626,001
Less accumulated depreciation	<u>(4,280,714)</u>
Net capital assets	3,345,287
Net pension liability	(2,176,149)
Contributions to the pension plan in the current fiscal year	616,295
Deferred outflows of resources reported in the fund statements but not in the government- wide statements	1,450,677
Deferred inflows of resources reported in the fund statements but not in the government- wide statements	101,111
Pension related deferrals	1,068,208
OPEB related deferrals	(698,745)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Compensated absences	(526,994)
Other postemployment benefits	<u>(17,423,402)</u>
Total adjustment	<u>\$ (14,243,712)</u>

##### 2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$(168,466) as follows:

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**Notes to the Financial Statements**

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<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the Statement of Activities, net of dispositions	\$ 956,400
Cost of disposed capital assets not recorded in the fund statements	(19)
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the fund statements	(469,711)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	616,295
Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities	368,518
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
ARHS's portion of collective pension expense	(586,097)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	9,164
Other postemployment benefits are accrued in the government-wide statements but not in the fund statements because they do not use current resources.	(1,091,079)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Increase in deferred inflows of resources - patient fees receivables	<u>28,063</u>
Total adjustment	<u>\$ (168,466)</u>

**I. Detail Notes on All Funds**

**A. Assets**

**1. Deposits**

All of ARHS'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 ARHS's agent in ARHS's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for ARHS, these deposits are considered to be held by their agent 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 ARHS or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for ARHS under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in period 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 State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. ARHS relies on the State Treasurer to monitor those financial institutions. ARHS analyzes

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

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the financial soundness of any other financial institutions used by ARHS. ARHS complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, ARHS's deposits had a carrying amount of \$ 5,599,183 (including \$1,554,953 in fiduciary cash) and a bank balance of \$5,957,455. Of the bank balance, \$500,000 was covered by federal depository insurance and \$3,647,763 in non-interest bearing deposits and \$1,809,692 was held in interest bearing deposits covered by collateral held under the pooling method. At June 30, 2019, ARHS had \$1,860 of cash on hand.

## 2. Investments

ARHS's invests excess cash funds in the North Carolina Capital Management Trust Government and Term Portfolios. The N.C. Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2019. The NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and also in high-grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. Due to the liquidity of the investments they are included as a part of cash in the balance sheet and statement of net position.

At June 30, 2019 ARHS had the following investment and maturities:

	<b>Valuation Measurement Method</b>	<b>Fair Value</b>	<b>Less Than 6 Months</b>
NC Capital Management Trust:			
Term Portfolio*	Fair Value – Level 1	\$ 2,161,327	\$ 2,161,327
Government Portfolio	Fair Value – Level 1	<u>2,514,886</u>	N/A
Total		<u>\$ 4,676,213</u>	<u>\$ 2,161,327</u>

\* As of June 30, 2019, the NC Capital Management Trust Term Portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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 Two debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

*Risk* – ARHS has no policies with regards to interest rate risk, credit risk, custodial credit risk, or the concentration of credit risk.

At June 30, 2019, the Albemarle Regional Health Service's OPEB Trust had \$2,246,048 invested in the State Treasurer's Local Government Other Post-Employment Benefits (OPEB) Trust pursuant to G.S. 159-30.1. The State Treasurer's OPEB Trust may invest in public equities and both long-term and short-term fixed income obligations as determined by the State Treasurer pursuant to the General Statutes. At year-end, ARHS's OPEB Trust was invested as follows: State Treasurer's Short Term Investment Fund (STIF) 20%, which is reported as cash and cash equivalents; State Treasurer's Bond Index Fund (BIF) 20% and BlackRock's MSCI ACWI EQ Index Non-Lendable Class B Fund 60% (the equities were split with 55.33% in domestic securities and 44.67% in international securities).



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**Level of the fair value hierarchy:** Ownership of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. 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 STIF is valued as \$1 per share. The STIF portfolio is unrated and had a weighted average maturity at June 30, 2019 of 1.3 years.

Ownership of the BIF is determined monthly at fair value using the same Level 2 inputs as the STIF and is based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocations of net earnings. On June 30, 2019 the BIF, which does not have a credit rating, was valued at \$1 per unit and had an average maturity of 7.81 years at June 30, 2019.

The BlackRock's MSCI ACWI EQ Index Non-Lendable Class B fund, authorized under G.S. 147-69.2(b)(8), is a common trust fund considered to be commingled in nature. The Fund's fair value is the number of shares times the net asset value as determined by a third party. At June 30, 2019, the fair value of the funds was \$22.562358 per share. Fair value for this BlackRock fund is determined using Level 1 inputs which are directly observable, quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Valuation technique:** North Carolina Department of State Treasurer OPEB Trust 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.

*Credit Risk* – ARHS does not have a formal investment policy regarding credit risk for the Trust. The STIF is unrated and authorized under NC General Statute 147-69.1. The State Treasurer's STIF is invested in highly liquid fixed income securities consisting primarily of short to intermediate term treasuries, agencies, and money market instruments. The BIF is unrated and authorized under NC General Statute 147-69.1 and 147-69.2. The State Treasurer's BIF is invested in high quality debt securities eligible under G.S. 147-69.2(b)(1)-(6).

### 3. Receivables

Receivables at the government-wide level at June 30, 2019, were as follows:

	<u>Accounts</u>	Due From Other <u>Government</u>	<u>Total</u>
Governmental Activities:			
General	\$ 116,652	\$ 127,875	\$ 244,527
Other Governmental	94,698	670,276	764,974
Total governmental activities	\$ 211,350	\$ 798,151	\$ 1,009,501

The due from other governments that is owed to ARHS consists of the following:

State of North Carolina	\$ 209,286
Local governments	588,865
	\$ 798,151

ARHS's General Governmental Activities accounts receivable are presented net of the allowance for doubtful accounts of \$ 698,674.

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**Notes to the Financial Statements**

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**4. Capital Assets**

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 215,600	\$ -	\$ -	\$ 215,600
Construction in progress	-	-	-	-
Total assets not being depreciated	<u>215,600</u>	<u>-</u>	<u>-</u>	<u>215,600</u>
Capital assets being depreciated:				
Buildings	1,318,594	-	67,029	1,251,565
Other improvements	626,053	125,766	-	751,819
Equipment	2,123,273	96,505	98,882	2,120,896
Vehicles and motor equipment	2,551,992	734,129	-	3,286,121
Total capital assets being depreciated	<u>6,619,912</u>	<u>956,400</u>	<u>165,911</u>	<u>7,410,401</u>
Less accumulated depreciation for:				
Buildings	606,165	24,693	67,029	563,829
Other improvements	303,170	126,014	-	429,184
Equipment	1,388,085	96,533	98,863	1,385,755
Vehicle and motor equipment	1,679,475	222,471	-	1,901,946
Total accumulated depreciation	<u>3,976,895</u>	<u>\$ 469,711</u>	<u>\$ 165,892</u>	<u>4,280,714</u>
Total capital assets being depreciated, net	<u>2,643,017</u>			<u>3,129,687</u>
Governmental activity capital assets, net	<u>\$2,858,617</u>			<u>\$ 3,345,287</u>

Administration	\$ 7,742
Environmental Health	120,526
Adult Health	5,398
Women, Infants and Children's Program	16,944
Transportation Program	288,164
Other Services	<u>30,937</u>
Total depreciation expense	<u>\$ 469,711</u>

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**Notes to the Financial Statements**

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**B. Liabilities**

**1. Payables**

Payables at the government-wide level at June 30, 2019 were as follows:

	Vendors	Salaries and Benefits	Total
<b>Governmental activities:</b>			
General	\$ 49,238	\$ 407,571	\$ 456,809
Sanitary Landfill Program	148,682	26,428	175,110
Transportation Program	17,882	60,066	77,948
Other governmental funds	9	5,869	5,878
Total governmental activities	\$ 215,811	\$ 499,934	\$ 715,745

**2. Pension Plan Obligations and Postemployment Obligations**

a. Deferred Compensation Plan

ARHS offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all ARHS employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The assets of this plan are not included in these financial statements.

b. Other Postemployment Benefits (OPEB)

Plan Description

*Plan Administration.* By Board resolution, ARHS administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of ARHS, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have a minimum of 25 years of employment with ARHS. For those employees that retire with 25 years of service and are under the age of 65, ARHS will pay insurance rates equal to the current employee coverage. As of July 1, 2017, the HCB Plan has been closed to new entrants. The plan, which has a June 30, 2019 year end, does not issue a stand-alone report. Management of the HCB Plan is vested in the ARHS Board.

The plan does not issue separate financial statements.

*Plan Membership.* Membership of the plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	41
Active plan members	<u>122</u>
	<u>163</u>

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*Benefits Provided.* The HCB Plan provides healthcare benefits for retirees. ARHS pays the cost of coverage for employees' benefits through private insurers. For retirees over the age of 65, ARHS will pay for a secondary insurance policy to supplement Medicare. Also, ARHS's retirees can purchase coverage for their dependents at ARHS's group rates.

*Contributions.* ARHS pays the full cost of coverage for the healthcare benefits paid to qualified retirees. ARHS has chosen to fund the healthcare benefits on a pay as you go basis except during the year ended June 30, 2017 the Board approved making a single deposit into a trust fund in the amount of \$2,100,000 to be used to fund future benefits. Contributions for current retiree healthcare benefits was \$336,745.

Investments

*Investment Policy.* The HCB Plan'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 HCB Plan aims to refrain from dramatically shifting asset class allocations over short time spans. Investments are valued at fair value. The Board's adopted asset allocation policy as of June 30, 2018 and June 30, 2019 are shown below.

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
	Bond Index Fund	20.00%	30.00%	2.90%
Equity Index Fund	60.00%	65.00%	6.12%	4.56%
Short Term Investment Fund	<u>20.00%</u>	<u>5.00%</u>	2.20%	0.13%
Total	<u>100.00%</u>	<u>100.00%</u>		

The long-term expected rate of return is 5.082%

*Rate of Return.* For the year ended June 30, 2019, the annual money weighted rate of return on investments, net of investment expense, was 5.57%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of ARHS

The components of the net OPEB liability of ARHS at June 30, 2019 were as follows:

Total OPEB Liability	\$ 19,669,450
Plan fiduciary net position	<u>2,246,048</u>
ARHS's net OPEB Liability	\$ <u>17,423,402</u>

Plan fiduciary net position as a percentage of the total OPEB liability 11.42%

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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### Notes to the Financial Statements

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Inflation	2.50%
Salary increases	3.50% to 7.75%, including inflation and productivity factor
Investment rate of return	5.082% net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	7.25% for 2018 decreasing to an ultimate rate of 4.75% by 2028 (Pre-Medicare) 5.38% for 2018 decreasing to an ultimate rate of 4.75% by 2022 (Medicare)

The total OPEB liability was rolled forward to June 30, 2019 for the employer and the plan, respectively, utilizing update procedures incorporating the actuarial assumptions.

Mortality rates were based on the RP-2014 mortality tables with adjustment for LGERS experience and generational mortality improvements using Scale MP-2015. For general employees, rates are adjusted by 115% (male) and 79% (female) for ages under 78 and by 135% (male) and 116% (female) for age 78 and older.

*Actuarial Assumptions.* The demographic actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014. The remaining actuarial assumptions used in the June 30, 2018 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2018 valuation.

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 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 major asset class included in the target asset allocation as of June 30, are presented above.

*Discount Rate.* The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.53% which was a change from the discount rate of 3.94% at June 30, 2018. However, because the OPEB plan's fiduciary net position was not projected to be sufficient to make all future benefit payments, the long-term expected rate of return of 5.082% on Plan investments was applied to periods through 2023 and the Municipal Bond Index rate of 3.50% was applied to periods on and after 2023 resulting in a discount rate of 3.53%.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.* At June 30, 2019 the following represents the net OPEB liability of ARHS as well as what ARHS's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.53%) or 1-percentage-point higher (4.53%) than the current discount rate:

	1% Decrease (2.53%)	Discount Rate (3.53%)	1% Increase (4.53%)
Net OPEB liability	\$21,068,067	\$17,423,402	\$14,570,995

*Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates.* The following presents the net OPEB liability of ARHS at June 30, 2019, as well as what ARHS's net OPEB liability would be if it were to calculate healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates described above. :

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	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	\$14,249,430	\$17,423,402	\$21,566,820

*Changes in Net OPEB Liability, OPEB Expense and Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB.* At June 30, 2019, ARHS reported a net OPEB liability of \$17,423,402. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019, utilizing update procedures incorporating the actuarial assumptions.

At June 30, 2019, the components of the net OPEB liability of ARHS, measured as of June 30, 2018, were as follows:

	<u>Increase (Decrease)</u>		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a)-(b)</u>
Balances at June 30, 2018	\$ <u>17,303,023</u>	\$ <u>2,127,596</u>	\$ <u>15,175,427</u>
Changes for the Year:			
Service cost	388,309	-	388,309
Interest	674,549	-	674,549
Differences between Expected and Actual Experience	273,607	-	273,607
Changes of Assumptions	1,398,480	-	1,398,480
Administrative Expense	-	(192)	192
Contributions	-	368,518	(368,518)
Net Investment Income	-	118,644	(118,644)
Benefit Payments	<u>(368,518)</u>	<u>(368,518)</u>	<u>-</u>
Net Changes	<u>2,366,427</u>	<u>118,452</u>	<u>2,247,975</u>
Balances at June 30, 2019	\$ <u>19,669,450</u>	\$ <u>2,246,048</u>	\$ <u>17,423,402</u>

*Changes of Assumptions.* Changes of assumptions and other inputs reflect a change in the discount rate from 3.89% for 2018 to 3.50% for 2019. In addition the investment rate of return and the healthcare cost trend rates changed based on most recent experience and changed to the current schedule. The impact of the Affordable Care Act (ACA) was addressed in the valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results.

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For the year ended June 30, 2019, ARHS recognized OPEB expense of \$1,091,079. At June 30, 2019, ARHS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 224,922	\$ 9,154
Changes of assumption	1,149,640	689,591
Net difference between projected and actual earnings on plan investments	<u>76,115</u>	<u>-</u>
Total	<u>\$ 1,450,677</u>	<u>\$ 698,745</u>

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

**Year Ended June 30:**

2020	161,636
2021	161,636
2022	161,638
2023	140,253
2024	126,769
Thereafter	-

c. Local Governmental Employees' Retirement System

*Plan Description* - ARHS is a participating employer in the statewide Local Governmental Employee's 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 (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454 or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided* - LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the members 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

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five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternative Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 five years of creditable service, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age or have completed 15 years of service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions* - Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. AHRS employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. ARHS's contractually required contribution rate for the year ended June 30, 2019 was 7.75% for 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 ARHS were \$616,294 for the year ended June 30, 2019.

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

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

At June 30, 2019, ARHS reported a liability of \$2,176,149 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. ARHS's proportion of the net pension asset was based on a projection of ARHS's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, ARHS's proportion was 0.090% which was a decrease of .010% from its proportion measured at June 30, 2018.

For the year ended June 30, 2019, ARHS recognized pension expense of \$616,294 (fund basis) and pension expense of \$585,371 in the government-wide statements. At June 30, 2019, ARHS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 335,728	\$ 11,265
Changes of assumption	577,465	-
Net difference between projected and actual earnings on pension plan investments	298,720	-
Changes in proportion and differences between ARHS contributions and proportionate share of contributions	43,181	175,620
ARHS contributions subsequent to measurement date	<u>616,294</u>	<u>-</u>
Total	<u>\$ 1,871,388</u>	<u>\$ 186,885</u>

\$616,294 is reported as deferred outflows of resources related to pensions resulting from ARHS contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2020.

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

Year Ended June 30:

2020	534,151
2021	325,604
2022	26,330
2023	182,125
2024	-
Thereafter	-

*Actuarial Assumptions* - The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 per cent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. General, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount Rate* - The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of ARHS's proportionate share of the net pension asset to changes in the discount rate.* The following presents ARHS's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00 percent, as well as what the ARHS'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 percent) or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>( 7.00%)</u>	1% Increase <u>(8.00%)</u>
ARHS's proportionate share of the net pension liability (asset)	\$5,227,299	\$2,176,149	\$ (373,439)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Notes to the Financial Statements**

**June 30, 2019**

d. Other Employee Benefits

ARHS has elected to provide death benefits to employees through the Death Benefit Plan for member of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the system at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's twelve (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. ARHS has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. ARHS considers these contributions to be immaterial.

**3. Unemployment**

ARHS is responsible to reimburse the North Carolina Employment Security Commission for any benefits paid to former employees. Beginning June 30, 2013, ARHS is required to maintain a fund with the Division of Employment Security in the amount of 1% of salaries. ARHS is making quarterly payments as billed by the Division of Employment Security to accumulate these funds.

**4. Deferred Outflows and Inflows of Resources**

Deferred outflows of resources as of June 30, 2019 consisted of:

Contributions to the pension plan subsequent to the measurement date	\$ 616,341
Pension-changes in proportion and differences between employer contributions and proportionate share of contributions	1,255,047
Net difference between projected and actual investment earnings – OPEB	<u>1,450,677</u>
Total	\$ <u>3,322,065</u>

The balance in deferred inflows of resources at year-end is composed of the following elements:

	<u>Modified Accrual (Ex.3)</u>	<u>Full Accrual (Ex.1)</u>
Land held for resale	\$ 4,000	\$ 4,000
Septic management fees	550	550
Grants	185,926	185,926
Patient fees receivable	101,111	-
Hertford County Buy-In Installment	1,272,885	1,272,885
OPEB – difference between expected and Actual experience	-	9,154
OPEB – changes in assumptions	-	689,591
Pension Deferrals (see page 35)	-	186,885
Total	<u>\$ 1,564,472</u>	<u>\$ 2,348,991</u>

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

#### 5. Risk Management

ARHS is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. ARHS participates in two self-funded risk financing pools administered by the North Carolina Association of County Commissioners. Through these pools, ARHS obtains property coverage equal to replacement cost values of owned property subject to a limit \$200 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos, at actual cash value, crime coverage of \$250,000 per occurrence, and workers' compensation coverage up to the statutory limits. The pools are audited annually by certified public accountants, and the audited financial

statements are available to ARHS upon request. Both of these pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 retention up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage and crime coverage, and \$1,750,000 of each loss in excess of \$250,000 per occurrence retention of property and auto physical damage. For workers compensation there is a per occurrence retention of \$750,000.

ARHS carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settlement claims have not exceeded coverage in any of the past three years. Flood insurance is maintained only for properties in Flood Zone A.

ARHS participates in a self-funded risk financing pool administered by the Northeast Albemarle Group. Through this pool ARHS obtains health insurance. ARHS's health insurance plan is funded by

contributions from ARHS and employee contributions. The employee shall contribute an amount as determined by the Plan Administrator and the employer shall contribute the difference. The pool is reinsured for individual losses (specific claims) that exceed \$130,000. The pool is not audited.

In accordance with G.S. 159-29, ARHS finance officer is performance bonded through a commercial surety bond. The finance officer's bond is for \$100,000. The remaining employees that have access to funds are insured under a blanket bond for \$250,000 through the self-funded risk-financing pool administered by the North Carolina Association of County Commissioners.

#### 6. Long-Term Obligations

##### a. Long-Term Obligation Activity

The following is a summary of changes in ARHS's long-term obligations for the fiscal year ended June 30, 2019:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 536,158	\$ 474,983	\$ 484,147	\$ 526,994	\$ -
Other postemployment benefits	15,175,427	2,734,945	486,970	17,423,402	
Net pension liability	1,490,447	685,702	-	2,176,149	
Total governmental activities	<u>\$17,202,032</u>	<u>\$ 3,895,630</u>	<u>\$ 971,117</u>	<u>\$20,126,545</u>	<u>\$ -</u>

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Notes to the Financial Statements**

**June 30, 2019**

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

**C. Fund Balance**

ARHS has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, State funds, and local funds. Grant restrictions will guide how grant revenue is spent. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it's in the best interest of ARHS.

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance-General Fund	\$ 7,322,443
Less:	
Stabilization by State Statute	(270,609)
Appropriated Fund Balance in 2020 budget	<u>(1,708,648)</u>
Remaining Fund Balance	<u>\$ 5,343,186</u>

There were no outstanding encumbrances at June 30, 2019.

**III. Interfund Balances and Activity**

Transfers to/from other funds at June 30, 2019, consisted of the following:

From the General Fund	
Transportation Fund (For other programs usage of transportation property)	\$ 15,316
NENCPPH (To fund match requirements)	<u>13,625</u>
	<u>\$ 28,941</u>
To the General Fund	
Transportation Fund (Reimbursement of overhead expenses)	\$ 51,790
Community Care Fund (Reimbursement of overhead expenses)	<u>34,109</u>
	<u>\$ 85,899</u>

At June 30, 2019, the General Fund was owed \$18,200 and \$108,933 from the Community Care Program fund and the Sanitary Landfill fund, respectively, to meet working capital requirements.

**IV. Benefit Payments Issued by the State**

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. ARHS personnel are involved with certain functions, primarily eligibility determinations that cause benefit payments to be issued by the State. These amounts disclose this additional aid to ARHS recipients that do not appear in the basic financial statements because they are not revenues and expenditures of ARHS.

WIC	<u>Federal</u>
	<u>\$1,820,310</u>

## ALBEMARLE REGIONAL HEALTH SERVICES

### Notes to the Financial Statements

June 30, 2019

#### V. Subsequent Events

ARHS has evaluated events subsequent to December 22, 2019, and through the date on which the financial statements were issued, December 22, 2019. No material subsequent events were identified for recognition or disclosure.

#### VI. Special Items

##### Home Health Sale

At June 30, 2018, ARHS had \$206,258 in restricted cash which was being held in escrow (reported as a deferred inflow) related to the previous sale of the Home Health Operations. During the year ended June 30, 2019, the restrictions related to the escrowed funds expired and ARHS received the funds from the escrow agent.

##### Hertford County Buy-In

Effective July 1, 2018, ARHS accepted Hertford County as a new member and began providing health services to the County. The merger requires Hertford County to pay ARHS \$1,414,317 over a period of 10 years. The annual installment to be received is \$141,431. The balance of the amount owed at June 30, 2019, is reported as Due from Hertford County and a deferred inflow which will be recognized as income as payments are received.

#### VII. Summary Disclosure of Significant Commitments and Contingencies

##### Federal and State Assisted Programs

ARHS 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 moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Notes to the Financial Statements**

**June 30, 2019**

**Required  
Supplementary Financial Data**

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This section contains additional information required by generally accepted accounting principles.

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- Schedule of Funding Progress for the Other Postemployment Benefits.
- Schedule of Proportionate Share of Net Pension Liability for Employer Contributions for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in the Net OPEB Liability and Related Ratios
- Schedule of Contributions (OPEB)
- Schedule of Investment Returns (OPEB)

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Proportionate Share of Net Pension Liability (Asset)  
Required Supplementary Information  
Last Six Fiscal Years**

**Local Government Employees Retirement System**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset) (%)	0.09%	0.10%	0.14%	0.15%	(0.15%)	0.15%
Authority's proportion of the net pension liability (asset) (\$)	\$ 2,176,149	\$ 1,490,447	\$ 2,941,769	\$ 667,177	\$ (916,996)	\$ 1,847,854
Authority's covered-employee payroll	\$ 7,268,785	\$ 7,430,498	\$ 8,803,847	\$ 10,193,926	\$ 10,080,854	\$ 9,719,451
Authority's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	29.9%	20.1%	33.4%	6.5%	(9.1%)	19.0%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	94.18%	91.47%	98.09%	102.64%	94.35%

**Contributions  
Last Six Fiscal Years**

**Local Government Employees Retirement System**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 616,341	\$ 545,159	\$ 542,650	\$ 591,010	\$ 718,074	\$ 712,684
Contributions in relation to the contractually required contribution	<u>\$ 616,341</u>	<u>\$ 545,159</u>	<u>\$ 542,650</u>	<u>\$ 591,010</u>	<u>\$ 718,074</u>	<u>\$ 712,684</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 7,952,184	\$ 7,268,785	\$ 7,430,498	\$ 8,803,847	\$ 10,193,926	\$ 10,080,854
Contributions as a percentage of covered-employee payroll	7.75%	7.50%	7.30%	6.71%	7.04%	7.06%



**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Schedule of Changes in the Net OPEB Liability and Related Ratios**  
**For the year ended June 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 388,309	\$ 417,728	\$ 480,037
Interest	674,549	627,986	564,220
Changes of benefit terms	-	-	-
Differences between expected and actual experience	273,607	(13,354)	-
Changes of assumptions	1,398,480	(1,005,917)	(1,781,070)
Benefit payments	(368,518)	(332,027)	(307,189)
<b>Net change in total OPEB liability</b>	<u>2,366,427</u>	<u>(305,584)</u>	<u>(1,044,002)</u>
<b>Total OPEB liability - beginning</b>	<u>17,303,023</u>	<u>17,608,607</u>	<u>18,652,609</u>
<b>Total OPEB liability - ending</b>	<u><u>19,669,450</u></u>	<u><u>17,303,023</u></u>	<u><u>17,608,607</u></u>
 <b>Plan fiduciary net position</b>			
Contributions - employer	368,518	332,027	307,189
Net investment income	118,644	25,128	2,468
Benefit payments	(368,518)	(332,027)	(307,189)
Administrative expense	(192)	-	-
<b>Net change in plan fiduciary net position</b>	<u>118,452</u>	<u>25,128</u>	<u>2,468</u>
<b>Plan fiduciary net position - beginning</b>	<u>2,127,596</u>	<u>2,102,468</u>	<u>2,100,000</u>
<b>Plan fiduciary net position - ending</b>	<u><u>2,246,048</u></u>	<u><u>2,127,596</u></u>	<u><u>2,102,468</u></u>
 <b>Net OPEB liability - ending</b>	<u><u>\$ 17,423,402</u></u>	<u><u>\$ 15,175,427</u></u>	<u><u>\$ 15,506,139</u></u>
 <b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	11.42%	12.30%	11.94%
<b>Covered payroll</b>	5,418,708	6,499,278	6,499,278
<b>Net OPEB liability as a percentage of covered payroll</b>	321.54%	233.49%	238.58%

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Schedule of Contributions - OPEB**  
**June 30, 2019**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 799,140	\$ 799,140	\$ 1,245,708	\$ 910,314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	\$ 368,518	\$ 332,027	\$ 307,189	\$ 248,515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	\$ 430,622	\$ 467,113	\$ 938,519	\$ 661,799	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,418,708	\$ 6,499,278	\$ 6,499,278	\$ 6,499,278	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	6.80%	5.11%	4.73%	3.82%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Notes to Schedule**

Valuation date: June 30, 2018

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 Normal
Amortization method	Level Dollar Amount, Closed
Amortization period	28 years
Asset valuation method	Market Value of Assets
Inflation	2.5 percent
Healthcare cost trend rates:	
Pre-Medicare Trend Rate	7.25% for 2018 decreasing to an ultimate rate of 4.75% by 2028
Medicare Trend rate	5.38% for 2018 decreasing to an ultimate rate of 4.75% by 2022
Dental	4%
Salary increases	3.5 to 7.75 percent including inflation and productivity factor
Investment rate of return	5.082 percent, net of OPEB plan investment expense, including inflation
Retirement age	In the 2018 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2014 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality table.
Mortality	Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERs experience and generated mortality improvements using scale MP-2015.

Information prior to 2016 is not available. Information will be added annually until ten years of information is presented.

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Schedule of Investment Returns - OPEB**  
**June 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	5.57%	2.89%	1.29%

## ALBEMARLE REGIONAL HEALTH SERVICES

**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2019**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Federal and State funds	\$ 7,217,449	\$ 6,972,409	\$ (245,040)
Local appropriations	895,707	895,707	-
Grants	576,332	338,693	(237,639)
Charges for services	4,517,596	4,348,570	(169,026)
Interest income	75,000	95,660	20,660
Donations and fundraisers	5,595	5,272	(323)
Miscellaneous revenue	64,453	108,729	44,276
<b>Total Revenues</b>	<b>13,352,132</b>	<b>12,765,040</b>	<b>(587,092)</b>
Expenditures:			
General:			
Administration:			
Salaries and employee benefits		1,415,590	
Operating expenses		638,496	
Capital outlay		-	
<b>Total General Administration</b>	<b>2,964,501</b>	<b>2,054,086</b>	<b>910,415</b>
Transportation:			
Operating expenses	92,804	47,434	
Capital outlay	-	-	
<b>Total transportation</b>	<b>92,804</b>	<b>47,434</b>	<b>45,370</b>
<b>Total General</b>	<b>3,057,305</b>	<b>2,101,520</b>	<b>955,785</b>
Environmental Health:			
Environmental Health-General:			
Salaries and employee benefits		678,309	
Operating expenses		134,518	
Capital outlay		-	
<b>Total Environmental Health-General</b>	<b>858,018</b>	<b>812,827</b>	<b>45,191</b>
Management Entity:			
Salaries and employee benefits		150,580	
Operating expenses		12,840	
Capital outlay		-	
<b>Total Management Entity</b>	<b>182,439</b>	<b>163,420</b>	<b>19,019</b>
<b>Total Environmental Health</b>	<b>1,040,457</b>	<b>976,247</b>	<b>64,210</b>

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2019**

## Women, Infants and Children's Program:

## Child Health:

Salaries and employee benefits		1,436,343	
Operating expenses		1,090,940	
Capital outlay	-	-	-
Total Child Health	<u>2,698,675</u>	<u>2,527,283</u>	<u>171,392</u>

## WIC Program:

Salaries and employee benefits		601,914	
Operating expenses		194,751	
Capital outlay	-	-	-
Total WIC Program	<u>852,565</u>	<u>796,665</u>	<u>55,900</u>

## Family Planning Program:

Salaries and employee benefits		810,452	
Operating expenses		263,184	
Capital outlay	-	-	-
Total Family Planning Program	<u>1,235,307</u>	<u>1,073,636</u>	<u>161,671</u>

## Maternal Health:

Salaries and employee benefits		863,558	
Operating expenses		155,433	
Capital outlay	-	-	-
Total Maternal Program	<u>1,184,060</u>	<u>1,018,991</u>	<u>165,069</u>

## CDSA ECI Program:

Salaries and employee benefits		1,409,819	
Operating expenses		209,235	
Capital outlay	-	-	-
Total CDSA ECI Program	<u>1,683,000</u>	<u>1,619,054</u>	<u>63,946</u>

## Albemarle Speech and Hearing:

Salaries and employee benefits		44,308	
Operating expenses		19,267	
Capital outlay	-	-	-
Total Albemarle Speech and Hearing	<u>69,837</u>	<u>63,575</u>	<u>6,262</u>

Total Women, Infants and Children's Programs	<u>7,723,444</u>	<u>7,099,204</u>	<u>624,240</u>
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## ALBEMARLE REGIONAL HEALTH SERVICES

## General Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2019**

Adult Health:			
Diabetes Program:			
Salaries and employee benefits		49,063	
Operating expenses		24,683	
Capital outlay	-	-	-
Total Diabetes Program	<u>139,572</u>	<u>73,746</u>	<u>65,826</u>
Adult Health-General:			
Salaries and employee benefits		599,509	
Operating expenses		171,821	
Capital outlay	-	-	-
Total Adult Health Program	<u>857,223</u>	<u>771,330</u>	<u>85,893</u>
HIV - Ryan White Network:			
Salaries and employee benefits		354,753	
Operating expenses		142,779	
Capital outlay	-	-	-
Total HIV - Ryan White Network	<u>628,220</u>	<u>497,532</u>	<u>130,688</u>
Behavioral Health Program:			
Salaries and employee benefits		228,139	
Operating expenses		99,307	
Capital outlay	-	-	-
Total Behavioral Health Program	<u>388,512</u>	<u>327,446</u>	<u>61,066</u>
Breast/Cervical Cancer Program:			
Salaries and employee benefits		50,036	
Operating expenses		105,741	
Capital outlay	-	-	-
Total Breast/Cervical Cancer Program	<u>159,292</u>	<u>155,777</u>	<u>3,515</u>
Total Adult Health	<u>2,172,819</u>	<u>1,825,831</u>	<u>346,988</u>
Other Services:			
Life Quest:			
Salaries and employee benefits		384,063	
Operating expenses		139,980	
Capital outlay	-	-	-
Total Life Quest	<u>600,549</u>	<u>524,043</u>	<u>76,506</u>

## ALBEMARLE REGIONAL HEALTH SERVICES

## General Fund

## Statement of Revenues, Expenditures, and Changes in Fund Balance

## Budget and Actual

For the Year Ended June 30, 2019

Healthy Carolinians:			
Salaries and employee benefits		57,123	
Operating expenses		103,026	
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Healthy Carolinian	<u>328,338</u>	<u>160,149</u>	<u>168,189</u>
Community Transformation Grant:			
Salaries and employee benefits		66,564	
Operating expenses		77,955	
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Community Transformation Grant	<u>200,799</u>	<u>144,519</u>	<u>56,280</u>
Public Health Preparedness and Response:			
Salaries and employee benefits		108,308	
Operating expenses		25,934	
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Health Preparedness and Response	<u>137,135</u>	<u>134,242</u>	<u>2,893</u>
Total Other Services	<u>1,266,821</u>	<u>962,953</u>	<u>303,868</u>
Total expenditures	<u>15,260,846</u>	<u>12,965,755</u>	<u>2,295,091</u>
Revenues over (under) expenditures	<u>(1,908,714)</u>	<u>(200,715)</u>	<u>1,707,999</u>
Other financing sources (uses):			
Transfers from (to) other funds	109,870	56,958	(52,912)
Fund balance appropriated	<u>1,657,412</u>	<u>-</u>	<u>(1,657,412)</u>
Total other financing sources (uses)	<u>1,767,282</u>	<u>56,958</u>	<u>(1,710,324)</u>
<b>SPECIAL ITEM:</b>			
Hertford County Buy-In Installment	141,432	141,432	-
Realization of deferred gain from sale of Home Health Operations	<u>-</u>	<u>206,258</u>	<u>206,258</u>
Total special items	<u>141,432</u>	<u>347,690</u>	<u>206,258</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>203,933</u>	<u>\$ 203,933</u>
Fund balance, beginning of year		<u>7,118,510</u>	
Fund balance, end of year		<u>\$ 7,322,443</u>	

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Sanitary Landfill Program**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2019**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Federal and State grants	\$ 9,495	\$ 9,495	\$ -
Local appropriations	-	-	-
Other grants	-	-	-
Charges for services	3,798,496	3,374,184	(424,312)
Miscellaneous	541	838	297
Total revenues	<u>3,808,532</u>	<u>3,384,517</u>	<u>(424,015)</u>
Expenditures:			
Salaries and employee benefits		633,228	
Operating expenses		2,589,319	
Capital outlay		161,970	
Debt Service:		-	
Principal		-	
Interest		-	
Total expenditures	<u>3,752,798</u>	<u>3,384,517</u>	<u>368,281</u>
Excess (deficiency) of revenues over expenditures	55,734	-	(55,734)
Other Financing Sources (Uses):			
Fund balance appropriated	-	-	-
Transfers from (to) other funds	<u>(55,734)</u>	<u>-</u>	<u>55,734</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning of year		<u>165,498</u>	
Fund balance, end of year		<u>\$ 165,498</u>	



**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Transportation Program**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2019**

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Revenues:			
Federal and state grants	\$ 2,199,514	\$ 2,076,368	\$ (123,146)
Local appropriations	77,470	77,731	261
Charges for services	623,000	630,973	7,973
Interest Income	1,197	1,393	196
Miscellaneous revenue	112,063	111,803	(260)
Total revenues	<u>3,013,244</u>	<u>2,898,268</u>	<u>(114,976)</u>
Expenditures:			
Salaries and employee benefits		1,348,557	
Operating expenses		849,065	
Capital outlay		646,613	
Total expenditures	<u>3,087,276</u>	<u>2,844,235</u>	<u>243,041</u>
Excess (deficiency) of revenues over expenditures	<u>(74,032)</u>	<u>54,033</u>	<u>128,065</u>
Other financing sources (uses):			
Transfers from (to) other funds	(30,618)	(30,474)	144
Fund Balance Appropriated	104,650	-	(104,650)
Total other financing sources	<u>74,032</u>	<u>(30,474)</u>	<u>(104,506)</u>
Net change in fund balances	<u>\$ -</u>	<u>23,559</u>	<u>\$ 23,559</u>
Fund balance, beginning of year		<u>925,996</u>	
Fund balance, end of year		<u>\$ 949,555</u>	

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2019**

	NENCPH Program	Septic Tank Program	Community Care	Medical Reserve Corp	Total Nonmajor Governmental Funds
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 68,926	\$ 209,016	\$ -	\$ 12,899	\$ 290,841
Accounts receivable, net	135	-	24,078	-	24,213
Notes receivable, net	-	37,405	-	-	37,405
Deferred assets	-	-	-	-	-
Total assets	<u>\$ 69,061</u>	<u>\$ 246,421</u>	<u>\$ 24,078</u>	<u>\$ 12,899</u>	<u>\$ 352,459</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 5,878	\$ -	\$ 5,878
Due to other funds	-	-	18,200	-	18,200
Total liabilities	<u>-</u>	<u>-</u>	<u>24,078</u>	<u>-</u>	<u>24,078</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted:					
Stabilization by State Statute	135	37,405	24,078	-	61,618
Health Programs	-	199,016	-	-	199,016
Assigned for subsequent year's expenditures	19,331	10,000	-	11,563	40,894
Unassigned	49,595	-	(24,078)	1,336	26,853
Total fund balances	<u>69,061</u>	<u>246,421</u>	<u>-</u>	<u>12,899</u>	<u>328,381</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 69,061</u>	<u>\$ 246,421</u>	<u>\$ 24,078</u>	<u>\$ 12,899</u>	<u>\$ 352,459</u>

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

	NENCPH GRANT	Septic Tank Program	Community Care	Medical Reserve	Total Nonmajor Governmental Funds
Revenues:					
Federal and State grants	\$ -	\$ -	\$ -	\$ -	\$ -
Local appropriations	19,627	-	-	-	19,627
Grants	73	-	-	-	73
Charges for services	-	-	266,162	-	266,162
Interest income	-	955	-	-	955
Miscellaneous revenue	-	-	-	-	-
Total revenues	<u>19,700</u>	<u>955</u>	<u>266,162</u>	<u>-</u>	<u>286,817</u>
Expenditures:					
Salaries and employee benefits	-	-	220,309	6,187	226,496
Operating Expenses	34,536	1,854	5,744	1,031	43,165
Capital outlay	-	-	-	-	-
Total expenditures	<u>34,536</u>	<u>1,854</u>	<u>226,053</u>	<u>7,218</u>	<u>269,661</u>
Excess (deficiency) of revenues over expenditures	<u>(14,836)</u>	<u>(899)</u>	<u>40,109</u>	<u>(7,218)</u>	<u>17,156</u>
Other financing sources (uses):					
Transfers from (to) other funds	13,625	-	(40,109)	-	(26,484)
Total other financing sources	<u>13,625</u>	<u>-</u>	<u>(40,109)</u>	<u>-</u>	<u>(26,484)</u>
Net change in fund balances	(1,211)	(899)	-	(7,218)	(9,328)
Fund balance, beginning of year	<u>70,272</u>	<u>247,320</u>	<u>-</u>	<u>20,117</u>	<u>337,709</u>
Fund balance, end of year	<u>\$ 69,061</u>	<u>\$ 246,421</u>	<u>\$ -</u>	<u>\$ 12,899</u>	<u>\$ 328,381</u>

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**NENCPH Program**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2019**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Federal and state grants	\$ -	\$ -	\$ -
Local appropriations	19,627	19,627	-
Grants	73	73	-
Total revenues	<u>19,700</u>	<u>19,700</u>	<u>-</u>
Expenditures:			
Salaries and employee benefits		-	
Operating expenses		34,536	
Capital outlay		-	
Total expenditures	<u>98,730</u>	<u>34,536</u>	<u>64,194</u>
Excess (deficiency) of revenues over expenditures	<u>(79,030)</u>	<u>(14,836)</u>	<u>64,194</u>
Other financing sources (uses):			
Fund Balance Appropriated	65,405	-	(65,405)
Transfers from (to) other funds	13,625	13,625	-
Total other financing sources	<u>79,030</u>	<u>13,625</u>	<u>(65,405)</u>
Net change in fund balances	<u>\$ -</u>	<u>(1,211)</u>	<u>\$ (1,211)</u>
Fund balance, beginning of year		<u>70,272</u>	
Fund balance, end of year		<u>\$ 69,061</u>	

## ALBEMARLE REGIONAL HEALTH SERVICES

## Septic Tank Program

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2019**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Interest income	\$ 3,800	\$ 955	\$ (2,845)
Total revenues	<u>3,800</u>	<u>955</u>	<u>(2,845)</u>
Expenditures:			
Salaries and employee benefits			
Operating expenses		1,854	
Capital outlay		-	
Total expenditures	<u>13,800</u>	<u>1,854</u>	<u>11,946</u>
Excess (deficiency) of revenues over expenditures		(899)	9,101
Other Financing Sources (Uses):			
Fund balance appropriated	<u>10,000</u>	-	<u>(10,000)</u>
Net change in fund balances	<u>\$ -</u>	(899)	<u>\$ (899)</u>
Fund balance, beginning of year		<u>247,320</u>	
Fund balance, end of year		<u>\$ 246,421</u>	

## ALBEMARLE REGIONAL HEALTH SERVICES

## Community Care

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2019**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for services	\$ 404,534	\$ 266,162	\$ (138,372)
Total revenues	<u>404,534</u>	<u>266,162</u>	<u>(138,372)</u>
Expenditures:			
Salaries and employee benefits		220,309	
Operating expenses		5,744	
Capital outlay		-	
Total expenditures	<u>364,425</u>	<u>226,053</u>	<u>138,372</u>
Excess (deficiency) of revenues over expenditures	<u>40,109</u>	<u>40,109</u>	<u>-</u>
Other financing sources (uses):			
Transfers from (to) other funds	<u>(40,109)</u>	<u>(40,109)</u>	<u>-</u>
Total other financing sources	<u>(40,109)</u>	<u>(40,109)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u>\$ -</u>	

## ALBEMARLE REGIONAL HEALTH SERVICES

## Medical Reserve Corp

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2019**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Local appropriations	\$ -	\$ -	\$ -
Grants	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:			
Salaries and employee benefits		6,187	
Operating expenses		1,031	
Capital outlay		-	
Total expenditures	<u>20,117</u>	<u>7,218</u>	<u>12,899</u>
Excess (deficiency) of revenues over expenditures	<u>(20,117)</u>	<u>(7,218)</u>	<u>12,899</u>
Other financing sources (uses):			
Fund Balance Appropriated	<u>20,117</u>	-	<u>(20,117)</u>
Total other financing sources	<u>20,117</u>	-	<u>(20,117)</u>
Net change in fund balances	<u>\$ -</u>	<u>(7,218)</u>	<u>\$ (7,218)</u>
Fund balance, beginning of year		<u>20,117</u>	
Fund balance, end of year		<u>\$ 12,899</u>	

## ALBEMARLE REGIONAL HEALTH SERVICES

## Agency Funds

Combining Statement of Changes in Assets and Liabilities  
For the Year Ended June 30, 2019

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Albemarle Regional Solid Waste Management Authority</b>				
Assets:				
Cash and cash equivalents	<u>\$ 1,156,252</u>	<u>\$ 7,806,906</u>	<u>\$ 7,514,883</u>	<u>\$ 1,448,275</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 1,156,252</u>	<u>\$ 7,806,906</u>	<u>\$ 7,514,883</u>	<u>\$ 1,448,275</u>
<b>Northeast Albemarle Group</b>				
Assets:				
Cash and cash equivalents	<u>\$ 79,019</u>	<u>\$ 926,470</u>	<u>\$ 898,811</u>	<u>\$ 106,678</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 79,019</u>	<u>\$ 926,470</u>	<u>\$ 898,811</u>	<u>\$ 106,678</u>
<b>Total - All Agency Funds</b>				
Assets:				
Cash and cash equivalents	<u>\$ 1,235,271</u>	<u>\$ 8,733,376</u>	<u>\$ 8,413,694</u>	<u>\$ 1,554,953</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 1,235,271</u>	<u>\$ 8,733,376</u>	<u>\$ 8,413,694</u>	<u>\$ 1,554,953</u>



**Mason L. Spruill, CPA**  
CERTIFIED PUBLIC ACCOUNTANT

**521 South Hughes Boulevard**  
**Elizabeth City, North Carolina 27909**  
**(252)338-3860 Fax(252)-338-6611**

**Report on Internal Control Over Financial Reporting  
And on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

The Honorable Members of the Board of Directors  
and Mr. Battle Betts, Health Director  
Albemarle Regional Health Services  
Elizabeth City, North Carolina

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Albemarle Regional Health Services (ARHS), Elizabeth City, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises Albemarle Regional Health Service's basic financial statements, and have issued my report thereon dated December 22, 2019.

**Internal Control Over Financial Reporting**

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

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

My consideration of the internal control over financial reporting 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 my audit I did not identify any deficiencies in internal control that I 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 ARHS's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of the Report**

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



December 22, 2019

**Mason L. Spruill, CPA**  
CERTIFIED PUBLIC ACCOUNTANT

**521 South Hughes Boulevard**  
**Elizabeth City, North Carolina 27909**  
**(252)338-3860 Fax(252)338-6611**

**Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance;  
In Accordance With OMB Uniform Guidance and  
the State Single Audit Implementation Act**

**Independent Auditor's Report**

The Honorable Members of the Board of Directors  
and Mr. Battle Betts, Health Director  
Albemarle Regional Health Services  
Elizabeth City, North Carolina

**Report on Compliance for Each Major Federal Program**

I have audited Albemarle Regional Health Services (ARHS), Elizabeth City, North Carolina, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of ARHS's major federal programs for the year ended June 30, 2019. ARHS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of ARHS's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 ARHS's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination on ARHS's compliance.

**Opinion on Each Major Federal Program**

In my opinion, Albemarle Regional Health Services, Elizabeth City, North Carolina, complied in all material respects, with the 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, 2019.

**Report on Internal Control Over Compliance**

Management of ARHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered ARHS's internal control over compliance with the type 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 my 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, I do not express an opinion on the effectiveness of ARHS's internal control over compliance.

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

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Mark D. L. CPA". The signature is written in a cursive, flowing style.

December 22, 2019

**Mason L. Spruill, CPA**  
CERTIFIED PUBLIC ACCOUNTANT

**521 South Hughes Boulevard**  
**Elizabeth City, North Carolina 27909**  
**(252)338-3860 Fax(252)-338-6611**

**Report on Compliance For Each Major State Program;  
Report on Internal Control Over Compliance;  
In Accordance With OMB Uniform Guidance; and  
the State Single Audit Implementation Act**

**Independent Auditor's Report**

The Honorable Members of the Board of Directors  
and Mr. Battle Betts, Health Director  
Albemarle Regional Health Services  
Elizabeth City, North Carolina

**Report on Compliance for Each Major State Program**

I have audited Albemarle Regional Health Services (ARHS), Elizabeth City, North Carolina 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, 2019. ARHS'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 state statutes, regulations, contracts and terms and conditions of its state awards applicable to state programs.

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of ARHS's major state programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 US 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, Uniform Guidance, and the State Single Audit Implementation Act require that I 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 ARHS's compliance with those requirements and performing such other procedures I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major state program. However, my audit does not provide a legal determination on ARHS's compliance.

**Opinion on Each Major State Program**

In my opinion, Albemarle Regional Health Services, Elizabeth City, North Carolina, complied, in all material respects, with the 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, 2019.

**Report on Internal Control Over Compliance**

Management of ARHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered ARHS'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 my 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, I do not express an opinion on the effectiveness of ARHS's internal control over compliance.

*A deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

A handwritten signature in black ink, appearing to read "Mark D. L. CPA". The signature is fluid and cursive, with the letters "M", "D", and "L" being particularly prominent and stylized.

December 22, 2019

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2019**

**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified yes no

Significant deficiency(s) identified that are not considered to be material weaknesses yes no

Noncompliance material to financial statements notes

yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified yes no

Significant deficiency(s) identified that are not considered to be material weaknesses yes no

Noncompliance material to federal awards yes no

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

yes no

Type of auditor's report issued on compliance for major federal programs: Unmodified

Identification of major federal programs:

CFDA#

Program Name

10.557

Special Supplemental Food Program for Women, Infant, and Children

93.917

HIV Care Formula Grant – Ryan White Program

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

\$750,000

Auditee qualified as low-risk auditee?

yes no

**ALBEMARLE REGIONAL HEALTH SERVICES**

**Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2019**

State Awards

Internal control over major State programs:

Material weakness(es) identified	___yes	<u>X</u> no
Significant deficiency(s) identified that are not considered to be material weaknesses	___yes	<u>X</u> no
Noncompliance material to State Awards	___yes	<u>X</u> no

Type of auditor's report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act

___yes	<u>X</u> no
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Identification of major State programs:

Program Name

Children's Development Services  
General Aid to Counties

**Section II. Financial Statement Findings**

None reported.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**ALBEMARLE REGIONAL HEALTH SERVICES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2019**

Federal Grantor/Pass- Through Grantor/Program	Federal CFDA Number	State / Pass-through Grantor's Number	Expenditures			
			Federal	State	Passed-through to Subrecipients	Local
Title						
<b>U.S. Department of Health &amp; Human Services:</b>						
Passed through N.C. Department of Health & Human Services:						
Division of Public Health:						
Health Actions to Prevent Diabetes, Obesity, and						
Associated Risk Factors & Promote School Health	93.757	XXXX	\$ 108,618	\$ -	\$ -	\$ -
Public Health Emergency Preparedness	93.069	XXXX	17,441	-	-	-
Hospital Preparedness Program and Public						
Health Emergency Preparedness	93.074	XXXX	101,181	-	-	-
Preventive Health and Services Block Grant	93.991	XXXX	322,228	-	-	-
Family Planning	93.217	XXXX	182,954	-	-	-
HIV Prevention Activities	93.940	XXXX	59,803	-	-	-
Tobacco Control Program	93.305	XXXX	3,500	-	-	-
Immunization Grants	93.268	XXXX	63,276	-	-	-
Prevention Health Services STD Control	93.977	XXXX	100	-	-	-
Cancer Prevention and Control Program	93.898	XXXX	34,425	-	-	-
HHS-CDC TB Project	93.116	XXXX	50	-	-	-
Medical Assistance Program - Speech & Hearing	93.778	XXXX	19,191	-	-	-
Wisewoman Project - Screening and Evaluation	93.094	XXXX	1,890	-	-	-
Wisewoman Project	93.436	XXXX	3,520	-	-	-
Maternal & Child Health Services Block Grant	93.994	XXXX	869,622	-	-	-
Ryan White Care Act	93.917	XXXX	325,776	-	-	-
Division of Social Services:						
Temporary Assistance for Needy Families	93.558	CL XXXX	27,474	-	-	-
Total Department of Health and Human Services			<u>2,141,049</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Agriculture:</b>						
Passed through N.C. Department of Health & Human Services - Division of Social Services:						
Special Supplemental Nutrition Program for						
Women, Infants, & Children (WIC)	10.557	XXXX	794,922	-	-	-
Total U.S. Department of Agriculture			<u>794,922</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Housing and Urban Development:</b>						
Passed through N.C. Department of Health & Human Services - Communicable Disease Branch:						
Housing Opportunities for Persons With Aids	14.241	XXXX	73,944	-	-	-
Total U.S. Department of Housing and Urban Development			<u>73,944</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Transportation:</b>						
Passed through N.C. Department of Transportation-Federal Transit Capital and						
Operating Assistance Formula Grants:						
Formula Grants for Other Than Urbanized Areas	20.509	XXXX	380,344	23,771	-	71,315
Formula Grants for Other Than Urbanized Areas-Capital	20.509	XXXX	208,230	26,029	-	26,029
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	XXXX	230,002	-	-	230,002
Bus and Bus Facilities Formula Program	20.526	XXXX	519,710	64,964	-	64,964
Total U.S. Department of Transportation			<u>1,338,286</u>	<u>114,764</u>	<u>-</u>	<u>392,310</u>



**ALBEMARLE REGIONAL HEALTH SERVICES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2019**

Title	Federal CFDA Number	Expenditures				
		Federal	State	Passed-through to Subrecipients	Local	
<b>U.S. Department of Education:</b>						
Office of Special Education and Rehabilitative Services						
Passed through the N.C. Department of Health and Human Services - Division of Mental Health, Developmental Disabilities and Substance Abuse Services:						
North Carolina Early Intervention Program	84.181 CL	XXXX	252,512	-	-	-
Total U.S. Department of Education			252,512	-	-	-
<b>State Funds:</b>						
North Carolina Department of Health & Human Services:						
Division of Public Health:						
General Aid		XXXX	-	756,642	-	-
Maternal and Child Health Block Grant		XXXX	-	777,024	-	-
CSHS - Speech and Hearing		XXXX	-	51,888	-	-
Children's Development Services		XXXX	-	1,366,064	-	-
General Communicable Disease Control		XXXX	-	37,232	-	-
Tobacco Prevention		XXXX	-	37,500	-	-
Tuberculosis Control		XXXX	-	85,938	-	-
High Risk Maternity Clinic		XXXX	-	69,280	-	-
Breast and Cervical Cancer		XXXX	-	57,885	-	-
Mosquito and Tick Suppression		XXXX	-	16,000	-	-
Food and Lodging		XXXX	-	38,028	-	-
HIV-Std Aid		XXXX	-	4,000	-	-
HIV-Std Drugs		XXXX	-	926	-	-
HIV/STD - Evidence Based intervention Services		XXXX	-	46,345	-	-
Preventive Health & Health Services Block Grant		XXXX	-	33,109	-	-
Healthy Communities Activities		XXXX	-	50,247	-	-
Active Routes to School		XXXX	-	70,596	-	-
Womens Health Service Fund		XXXX	-	46,733	-	-
Family Planning		XXXX	-	164,545	-	-
North Carolina Department Environmental Quality:						
Community Waste Reduction and Recycling		XXXX	-	9,495	-	2,185
North Carolina Department of Transportation:						
Rural State Operating Program		XXXX	-	40,000	-	40,000
Rural Operating Assistance Program (ROAP) Cluster:						
ROAP Rural General Public		XXXX	-	278,407	-	-
ROAP Elderly & Disabled Transportation Assistance Program		XXXX	-	268,342	6,179	-
ROAP Workfirst		XXXX	-	36,569	-	-
			-	4,342,795	6,179	42,185
Total			\$4,600,713	\$4,457,559	\$ 6,179	\$434,495

**Notes to the Schedule of Expenditures of Federal and State Financial Awards:**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Albemarle Regional Health Services under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Albemarle Regional Health Services, it is not intended to and does not present the financial position, changes in net position or cash flows of Albemarle Regional Health Services.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3: Indirect Cost Rate**

Albemarle Regional Health Services has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 4: Loans Outstanding**

Albemarle Regional Health Services had no loan balances outstanding at June 30, 2019 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. No loans were outstanding at the beginning or end of the year.