

**TENTATIVE AGENDA & MEETING NOTICE  
BOARD OF COUNTY COMMISSIONERS**

**TUESDAY, MARCH 1, 2016  
8:30 A.M.**

**WATAUGA COUNTY ADMINISTRATION BUILDING  
COMMISSIONERS' BOARD ROOM**

TIME	#	TOPIC	PRESENTER	PAGE
8:30	1	CALL REGULAR MEETING TO ORDER		
	2	APPROVAL OF MINUTES: February 16, 2016, Regular Meeting February 16, 2016, Closed Session February 22 & 23, 2016, Special Meeting Minutes Annual Retreat		1
	3	APPROVAL OF THE MARCH 1, 2016, AGENDA		11
8:35	4	PRESENTATION OF SMOKY MOUNTAIN CENTER'S ANNUAL AUDITED FINANCIAL REPORT	MR. FRED NIRDÉ	13
8:40	5	REQUEST TO RENEW CONTRACT WITH COURTHOUSE COMPUTER SYSTEMS	MS. AMY SHOOK	77
8:45	6	REQUEST TO ACCEPT HMGP GRANT	MR. JEFF VIRGINIA	85
8:50	7	REQUEST TO SURPLUS EQUIPMENT	MS. MARGARET PIERCE	91
8:55	8	MISCELLANEOUS ADMINISTRATIVE MATTERS A. Boards and Commissions B. Announcements	MR. DERON GEOUQUE	93 1370
9:00	9	PUBLIC COMMENT		138
10:00	10	BREAK		138
10:05	11	CLOSED SESSION Attorney/Client Matters – G. S. 143-318.11(a)(3)		138
10:30	12	ADJOURN		

**AGENDA ITEM 2:**

**APPROVAL OF MINUTES:**

February 16, 2016, Regular Meeting

February 16, 2016, Closed Session

February 22 & 23, 2016, Special Meeting Minutes (Annual Retreat)

**DRAFT****MINUTES****WATAUGA COUNTY BOARD OF COMMISSIONERS  
TUESDAY, FEBRUARY 16, 2016**

The Watauga County Board of Commissioners held a regular meeting, as scheduled, on Tuesday, February 16, 2016, at 5:30 P.M. in the Commissioners' Board Room of the Watauga County Administration Building, Boone, North Carolina.

**PRESENT:** Jimmy Hodges, Chairman  
David Blust, Vice-Chairman  
Billy Kennedy, Commissioner  
John Welch, Commissioner  
Perry Yates, Commissioner  
Stacy C. Eggers, IV, County Attorney  
Deron Geouque, County Manager  
Anita J. Fogle, Clerk to the Board

Chairman Hodges called the meeting to order at 5:30 P.M.

Vice-Chairman Blust opened the meeting with a prayer and Commissioner Kennedy led the Pledge of Allegiance.

**APPROVAL OF MINUTES**

Chairman Hodges called for additions and/or corrections to the February 2, 2016, regular meeting minutes.

Commissioner Kennedy, seconded by Commissioner Yates, moved to approve the February 2, 2016, regular meeting minutes as presented.

VOTE: Aye-5  
Nay-0

**APPROVAL OF AGENDA**

Chairman Hodges called for additions and/or corrections to the February 16, 2016, agenda.

Commissioner Kennedy, seconded by Vice-Chairman Blust, moved to approve the February 16, 2016, agenda as presented.

VOTE: Aye-5  
Nay-0

**PUBLIC HEARING TO ALLOW CITIZEN COMMENT ON THE CLOSEOUT OF COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) SCATTERED SITE HOUSING PROGRAM #12-C-2431**

A public hearing was held for the close out of the Community Development Block Grant (CDBG) Scattered Site Housing Rehabilitation Program #12-C-2431.

Chairman Hodges called the public hearing to order at 5:32 P.M.

Ms. Michelle Ball with High Country Council of Governments reviewed the timeline of the grant and the homes that received funding for repairs.

There being no public comment, Commissioner Yates, seconded by Vice-Chairman Blust, moved to declare the public hearing closed at 5:37 P.M.

VOTE: Aye-5  
Nay-0

Commissioner Kennedy, seconded by Commissioner Welch, moved to approve the close-out of Community Development Block Grant Scattered Site Housing Program #12-C-2431.

VOTE: Aye-5  
Nay-0

**PUBLIC HEARING TO ALLOW CITIZEN COMMENT ON PROPOSED AMENDMENTS TO THE ORDINANCE TO REGULATE WIRELESS COMMUNICATION TOWERS IN WATAUGA COUNTY INCLUDING THE TITLE CHANGE TO: THE WATAUGA COUNTY WIRELESS TELECOMMUNICATIONS ORDINANCE**

A public hearing was held to consider proposed amendments to the Ordinance to Regulate Wireless Communication Towers in Watauga County including the title change to: the Watauga County Wireless Telecommunications Ordinance. The amendments are recommended by the Planning Board. The new ordinance is modeled after the North Carolina League of Municipalities version and incorporates federal and state law and court cases. The new ordinance would allow for greater height in some cases to encourage concealed wireless technology and increase collocation.

Mr. Furman proposed three additional amendments to the proposed ordinance as follows:

- Adding: III(C)(6) New and existing wireless support structures and facilities owned by governmental agencies and designed for non-commercial emergency communications.
- Changing ten (10) calendar days to fourteen (14) calendar days under IV(D)(1)(a).
- Changing Variance to Special Use Permit under VI(C)(1)

Vice-Chairman Blust, seconded by Commissioner Kennedy, moved to call the public hearing to order at 5:38 P.M.

VOTE: Aye-5  
Nay-0

There being no public comment, Vice-Chairman Blust, seconded by Commissioner Welch, moved to declare the public hearing closed at 5:45 P.M.

VOTE: Aye-5  
Nay-0

Commissioner Kennedy, seconded by Vice-Chairman Blust, moved to adopt the Watauga County Wireless Telecommunications Ordinance as present by Mr. Joe Furman.

VOTE: Aye-5  
Nay-0

**PROPOSED LANDLORD LETTER OF CONSENT BETWEEN HIGH COUNTRY COMMUNITY HEALTH AND APPALACHIAN DISTRICT HEALTH DEPARTMENT**

On behalf of Ms. Alice Salthouse, High Country Community Health C.E.O; County Manager Geouque requested authorization of the submittal of a grant to expand current dental operations at the Watauga County Health Department facility. The grant deadline was prior to the Board meeting; therefore, staff authorized the submittal of the application contingent upon Board approval. Board action is required to approve the submittal of the grant; therefore, should the Board wish to decline the submittal, staff will request High Country Community Health withdraw the application.

County Manager Geouque stated that, should the grant be awarded, a request for acceptance of the grant would be presented to the Board for approval.

Commissioner Kennedy, seconded by Commissioner Welch, moved to approve the submission of the grant as presented by the County Manager.

VOTE: Aye-5  
Nay-0

**SMOKY MOUNTAIN CENTER QUARTERLY REPORT**

County Manager Geouque presented the Smoky Mountain Center Quarterly Financial Report as required by Statute. This report was given for information only with no action neither required nor taken.

## **TAX MATTERS**

### ***A. Monthly Collections Report***

Tax Administrator Larry Warren presented the Tax Collections Report for the month of January 2016. This report was presented for information only and, therefore, no action was required.

### ***B. Refunds and Releases***

Mr. Warren presented the Refunds and Releases Report for January 2016 for Board approval:

TO BE TYPED IN MINUTE BOOK

Commissioner Kennedy, seconded by Commissioner Yates, moved to approve the Refunds and Releases Report for January 2016, as presented.

VOTE: Aye-5  
Nay-0

## **COMMISSIONER DISCUSSION**

Per Commissioner request, discussion was held regarding the recent Board of Adjustment ruling regarding the asphalt plant permit for Hampton/Maymead.

Commissioner Welch requested legal guidance regarding the recent ruling stating that he had received emails from those in support of and against the ruling. Chairman Hodges deferred to the County Attorney.

County Attorney Eggers stated that the Board of Adjustment had concluded the second of two recent hearings.

In the first hearing the Board of Adjustment ruled with Planning staff that the Appalachian Materials permit for an asphalt plant be denied. The ruling was appealed to the Superior Court.

In the second hearing the Board of Adjustment ruled against Planning staff stating that the Hampton/Maymead permit would be upheld. The County Attorney stated that following the written decision of the Board of Adjustment, the Board of Commissioners could appeal the decision to the Superior Court but it would be premature to do so at this time. Appeals could be made, if so desired, within thirty days of the receipt of a written decision by the Board of Adjustment. If appealed at the appropriate time, the Superior Court would only review the legality of the hearing such as errors of law or arbitrary and capricious judgment.

County Attorney Eggers stated that he could give legal advice in closed session.

## **MISCELLANEOUS ADMINISTRATIVE MATTERS**

### ***A. March Meeting Schedule***

County Manager Geouque stated that due to One-Stop Voting and the Primary, the Board of Elections will be using the Commissioners' Board Room from March 3 – March 16. This includes the second regularly scheduled Commissioners meeting in March.

Staff recommended cancelling the second meeting in March or rescheduling it for Thursday, March 17, 2016, at 5:30 P.M.

County Attorney Eggers suggested keeping the meeting scheduled in case any action was needed in regards to the Board of Adjustment's recent ruling and then cancelling the meeting if it was not needed.

Commissioner Kennedy, seconded by Vice-Chairman Blust, moved to reschedule the March 15, 2016, regular meeting to Thursday, March 17, 2016, at 5:30 P.M.

VOTE: Aye-5  
Nay-0

### ***B. Announcements***

County Manager Geouque announced the following:

- The Annual Pre-Budget Retreat will be held on Monday, February 22, 2016, beginning at 12:00 P.M. and continued on Tuesday, February 23, 2016, beginning at 9:00 A.M. in the Commissioners' Board Room.
- A public hearing is scheduled at 6:00 P.M. on March 3, 2016, in the Large Courtroom at the Watauga County Courthouse to receive public comments regarding the requested modification of the air permit for Maymead Materials, Inc.'s 421 Recycling Yard in Boone, North Carolina.

## **PUBLIC COMMENT**

The following shared their comments regarding the recent Board of Adjustment hearing ruling:

Susie Winters  
Leigh Ann Henion  
Andrew Hayslip  
Diane Warman Blanks  
Glenn Williams  
Mandy Anongrier  
Hailey Dellinger

Dominic Dixon  
David Sengel  
Sue Counts  
Natalie Foreman and daughter, Anna  
Diane Tilson  
Cherie Smith  
Lynn Doyle

Chip Williams  
Anne Ward  
John Callahan  
Karen Norris  
Carolyn Henion

**CLOSED SESSION**

At 7:10 P.M., Commissioner Kennedy, seconded by Commissioner Welch, moved to enter Closed Session to discuss Attorney/Client Matters, per G. S. 143-318.11(a)(3) and Personnel Matters, per G. S. 143-318.11(a)(6).

VOTE: Aye-5  
Nay-0

Commissioner Kennedy, seconded by Commissioner Welch, moved to resume the open meeting at 7:53 P.M.

VOTE: Aye-5  
Nay-0

**ADJOURN**

Commissioner Kennedy, seconded by Commissioner Welch, moved to adjourn the meeting at 7:53 P.M.

VOTE: Aye-5  
Nay-0

Jimmy Hodges, Chairman

ATTEST:  
Anita J. Fogle, Clerk to the Board



**DRAFT****MINUTES**

**WATAUGA COUNTY BOARD OF COMMISSIONERS  
SPECIAL MEETING  
MONDAY, FEBRUARY 22, 2016 & TUESDAY, FEBRUARY 23, 2016**

The Watauga County Board of Commissioners held a special meeting on Monday, February 22, 2016, and Tuesday, February 23, 2016, in order to conduct a retreat to review goals and objectives for the County. The meetings were held in the Commissioners' Board Room located in the Watauga County Administration Building, Boone, North Carolina.

**PRESENT:** Jimmy Hodges, Chairman  
David Blust, Vice-Chairman  
Billy Kennedy, Commissioner  
John Welch, Commissioner  
Perry Yates, Commissioner  
Deron Geouque, County Manager  
Margaret Pierce, Finance Director

Lunch was provided at 12:00 P.M. Chairman Hodges called the meeting to order on Monday, February 22, 2016, at 12:30 P.M., welcoming those in attendance.

The following topics were discussed:

Opening Remarks

Mr. Deron Geouque

Review of Current Capital Improvement Plan (CIP)

Mr. Deron Geouque & Mr. Robert Marsh

- A. Current CIP Status Report
- B. Office Space and Facilities Needs Assessment
- C. Old AppalCART Building
- D. Relocation of County Personnel
  1. Tax Appraisal
  2. Planning and Inspections
  3. License Plate Agency
  4. Red Cross

Review of Current Capital Improvement Plan (CIP)

- A. Landfill Road Relocation
- B. Parking Lot Behind Courthouse
- C. Recreation Center
- D. Telecommunication Upgrades
- E. School Facilities

Break at 3:05 P.M. to 3:15 P.M.

Update on Greenway Projects

Mr. Joe Furman

Wireless Connection Efforts

FY 2016 Review and Discussion of 2017 Budget

Ms. Margaret Pierce

A. Revenues

B. Expenditures

C. Debt Service Report

D. Budget Calendar, Budget work sessions set for May 11, 12:00 – 6:00 P.M. and May 12, 9:00 A.M. – 12:00 P.M.

Caldwell Community College & Technical Institute

Dr. Ken Boham

School Board Funding Issues

Dr. Scott Elliott, School Board Members Ron Henries, Jason Cornett, Barbara Kinsey, Dr. Jay Fenwick and Staff members Ly Marze, Dr. Stephen Martin and Danny Clark

A. FY 2017 Funding Needs

B. Schools' Capital Improvement Plan

C. Indoor Practice Facility

Board Directives/Discussion

A recess was declared at 6:05 P.M. The meeting reconvened on Tuesday, February 23, 2016, at 9:14 A.M.

Update-Study on Future Medics Base Locations

Dr. Marvin Hoffman

Tourism Development Authority (TDA)

Mr. Matt Vincent and Mr. Wright Tilley

Break

Miscellaneous & Commissioner Matters

Mr. Deron Geouque

A. State Issues

B. Commissioners Matters

The County Manager concluded the retreat by reviewing the issues addressed and seeking direction from the Board for Fiscal Year 2016-2017.

The meeting adjourned at 11:35 A.M.

Jimmy Hodges, Chairman

ATTEST:

Deron Geouque, County Manager

Blank Page

**AGENDA ITEM 3:**

**APPROVAL OF THE MARCH 1, 2016, AGENDA**

Blank Page

**AGENDA ITEM 4:**

**PRESENTATION OF SMOKY MOUNTAIN CENTER'S ANNUAL AUDITED FINANCIAL REPORT**

**MANAGER'S COMMENTS:**

Mr. Fred Nirdé, Chief Financial Officer Smoky Mountain LME/MCO, will present the Smoky Mountain Center Annual Audited Financial Statements as required by Statute.

The report is for information only; therefore no action is required.



## WATAUGA COUNTY FINANCE OFFICE

---

814 West King St., Room 216 - Boone, NC 28607 - Phone (828) 265-8007 Fax (828) 265-8006

### MEMORANDUM

**TO: Deron T. Geouque, County Manager**  
**FROM: Margaret Pierce, Finance Director**  
**SUBJECT: Smoky Mountain Center Audited Financial Statements**  
**DATE: February 25, 2016**

Attached is a copy of the audited financial report from Smoky Mountain Center for the fiscal year ended June 30, 2015. This audited financial report was provided by Smoky Mountain Center to comply with the G.S. 122C-117(d). Fred Nirdé from Smoky will be at the meeting to address any questions.

excerpt from G.S. 122C-117(d)

(d) A multicounty area authority shall provide to each board of county commissioners of participating counties a copy of the area authority's annual audit. The audit findings shall be presented in a format prescribed by the county and shall be read into the minutes of the meeting at which the audit findings are presented.

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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2015**



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2015**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<b>STATEMENT OF NET POSITION</b>	<b>13</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>14</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>15</b>
<b>STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS</b>	<b>16</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>17</b>
<b><u>OTHER POSTEMPLOYMENT BENEFITS – REQUIRED SUPPLEMENTARY INFORMATION</u></b>	<b>37</b>
<b>SCHEDULE OF FUNDING PROGRESS</b>	<b>38</b>
<b>SCHEDULE OF EMPLOYER CONTRIBUTIONS</b>	<b>39</b>
<b>LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM - PROPORTIONATE     SHARE OF NET PENSION ASSET</b>	<b>40</b>
<b>LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM – CONTRIBUTIONS</b>	<b>41</b>
<b><u>SUPPLEMENTAL SCHEDULES FOR NC DIVISION OF MEDICAL ASSISTANCE REPORTING</u></b>	<b>42</b>
<b>BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS</b>	<b>43</b>
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND     BALANCES – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS</b>	<b>44</b>
<b>SUPPLEMENTAL SCHEDULE RECONCILIATION OF THE STATEMENT OF     REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –     GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS TO THE STATEMENT     OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>45</b>
<b>SCHEDULE OF COMMITTED FUND BALANCES</b>	<b>46</b>
<b>STATEMENT OF NET POSITION – INTERNAL SERVICE FUND</b>	<b>47</b>
<b>STATEMENT OF CHANGES IN NET POSITION – INTERNAL SERVICE FUND</b>	<b>48</b>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
TABLE OF CONTENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2015**

<b><u>COMPLIANCE SECTION</u></b>	<b>49</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>50</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL AND STATE PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT</b>	<b>52</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>54</b>
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS</b>	<b>57</b>
<b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS</b>	<b>58</b>

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the major fund and the fiduciary fund of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Organization"), as of and for the year then ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the major fund and the fiduciary fund of the Organization as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter Regarding a Change in Accounting Principle**

As discussed in Note 4 to the financials statements, the Organization adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, during the year ended June 30, 2015. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion on pages 5-10, the Other Postemployment Benefits' Schedule of Funding Progress and Employer Contributions on pages 38-39, and the Local Government Employees' Retirement System Schedule of Proportionate Share of Net Pension Assets and Schedule of Contributions on pages 40 and 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

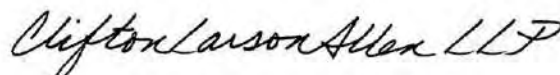
### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Organization. The Supplemental Schedules for NC Division of Medical Assistance Reporting as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules for NC Division of Medical Assistance Reporting and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

Charlotte, North Carolina  
October 29, 2015

## **Management's Discussion and Analysis**

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

### **Management's Discussion and Analysis (MD&A)**

The management of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Organization") offers readers of the Organization's financial statements this narrative overview and analysis of the Organization's financial activities for the fiscal year ended (FYE) June 30, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Organization's financial statements, which follow this narrative.

### **Financial Highlights**

- The Organization's net position increased by a total of \$24,123,529. An amount of \$6,151,032 of this increase was the funding from the Division of Medical Assistance for the two (2) percent Medicaid risk reserve and the interest earned on the restricted cash.
- Net investment in capital assets increased by \$1,029,238 (or 47.3%) as compared to the previous year's end.
- Unrestricted net position increased by \$16,943,259 to \$77,860,259 during the fiscal year ended June 30, 2015. The key contributing factor for this increase was a result of operations as a managed care organization under the Medicaid 1915 (b)(c) waiver. Medicaid waiver operations resulted in an establishment of a Medicaid risk reserve and more efficient administrative operations due to economies of scale.
- The business-type activity operating revenues are \$372,832,314 for the fiscal year.
- Total operating expenses of all the Organization's programs were \$349,483,224 during the fiscal year ended June 30, 2015.

### **Overview of the Financial Statements**

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

### **Overview of the Organization**

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

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

### **Fund Financial Statements**

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

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

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

The next section of the financial statements is the notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are on pages 17-36. After the notes, supplemental information is provided to show details about the Organization's post employment benefits.

### **Other Information**

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



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**Statement of Net Position**

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

**Table A-1  
Condensed Statement of Net Position  
June 30, 2015**

Current Assets	\$ 110,724,325
Restricted Cash	18,618,950
Pension Asset	1,747,654
Capital Assets	3,203,719
Total Assets	<u>134,294,648</u>
Deferred Outflows of Resources	<u>2,980,160</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 137,274,808</u></u>
Current Liabilities	\$ 31,272,857
Long-Term Liabilities	2,059,562
Total Liabilities	<u>33,332,419</u>
Deferred Inflows of Resources	4,259,461
Net Position	
Net Investment in Capital Assets	3,203,719
Restricted	18,618,950
Unrestricted Net Position	77,860,259
Total Net Position	<u>99,682,928</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 137,274,808</u></u>

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Organization exceeded liabilities by \$100,962,229 as of June 30, 2015. The Organization's net position increased by \$24,123,529 for the fiscal year ended June 30, 2015. The Organization uses unrestricted cash to pay providers of services and to manage risk associated with the capitation payments under the Medicaid waivers.

An additional portion of the Organization's net position represents resources that are subject to external restrictions on how they may be used. An amount of 78.1% of the total fund balance is unrestricted while 18.7% of net position is restricted by the Medicaid (b)(c) waiver contract. The remaining balance represents the net investment in fixed assets.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**Statement of Revenues, Expenses, and Changes in Net Position**

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

**Table A-2  
Condensed Statement of Changes in Net Position  
Year Ended June 30, 2015**

Local	\$ 2,939,599
Federal	7,040,660
State	55,338,806
Medicaid	305,331,457
Other Income	2,181,792
<b>Total Revenues</b>	<u>372,832,314</u>
<b>Expenses</b>	
Personnel	28,866,091
Professional Services	2,995,381
Supplies	320,880
Current Obligations/Services	2,861,025
Fixed Charges/Expenses	4,315,180
Capital Outlay	677,219
Depreciation	457,986
Contracts/Grants	308,989,462
<b>Total Expenses</b>	<u>349,483,224</u>
<b>NONOPERATING INCOME</b>	
Loss on Disposal of Capital Assets	(122,939)
Interest Income	154,678
<b>Total Nonoperating Income</b>	<u>31,739</u>
<b>Revenues Over Expenses</b>	23,380,829
<b>Contributed Capital</b>	<u>742,700</u>
<b>Changes in Net Position</b>	24,123,529
Net Position - Beginning of Year	<u>75,559,399</u>
<b>Net Position - End of Year</b>	<u><u>\$ 99,682,928</u></u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

### Capital Asset and Debt Administration

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

**Table A-3  
Capital Assets  
June 30, 2015**

In Process	\$ 196,578
Land	655,870
Buildings	484,964
Leasehold Improvements	822,533
Vehicles	25,656
Office Furniture and Equipment	204,867
Computer Equipment	813,251
Total Capital Assets	<u>\$ 3,203,719</u>

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

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

### Economic and Other Factors

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

Restructuring of Mental Health Services in North Carolina.

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

Other Factors for the Year Ended June 30, 2015:

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

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

### **Finance Contact**

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

## **Basic Financial Statements**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2015**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 103,676,619
Accounts Receivable, Net	5,952,855
Prepaid Expenses	1,046,706
Other Assets	48,145
Total Current Assets	<u>110,724,325</u>

**NON-CURRENT ASSETS**

Restricted Cash and Cash Equivalents	18,618,950
Pension Asset	1,747,654
Capital Assets (Net of Accumulated Depreciation)	3,203,719
Total Noncurrent Assets	<u>23,570,323</u>

Total Assets	134,294,648
--------------	-------------

**DEFERRED OUTFLOWS OF RESOURCES**

2,980,160

    Total Assets and Deferred Outflows of Resources

\$ 137,274,808

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

**CURRENT LIABILITIES**

Accounts Payable and Other Current Liabilities	\$ 16,159,649
Liability for Claims Incurred, but not Reported	14,888,208
Compensated Absences - Current Portion	225,000
Total Current Liabilities	<u>31,272,857</u>

**LONG-TERM LIABILITIES**

Other Postemployment Benefits	519,957
Deferred Lease Liability	56,280
Compensated Absences - Long-Term	1,483,325
Total Liabilities	<u>33,332,419</u>

**DEFERRED INFLOWS OF RESOURCES**

4,259,461

**NET POSITION**

Net Investment in Capital Assets	3,203,719
Restricted:	
Medicaid Risk Reserve	18,618,950
Unrestricted	77,860,259
Total Net Position	<u>99,682,928</u>

    Total Liabilities, Deferred Inflows of Resources, and Net Position

\$ 137,274,808

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2015**

**OPERATING REVENUES**

Intergovernmental:	
Local	\$ 2,939,599
Federal	7,040,660
State	55,338,806
Medicaid	305,331,457
Other Income	2,181,792
Total Revenues	<u>372,832,314</u>

**EXPENSES**

Personnel	28,866,091
Professional Services	2,995,381
Supplies and Materials	320,880
Current Obligations/Services	2,861,025
Fixed Charges/Expenses	4,315,180
Capital Outlay	677,219
Depreciation	457,986
Contracts, Grants	308,989,462
Total Expenses	<u>349,483,224</u>

Operating Income	23,349,090
------------------	------------

**NONOPERATING INCOME (LOSS)**

Loss on Sale of Capital Assets	(122,939)
Interest Income	154,678
Total Nonoperating Income	<u>31,739</u>

Revenues Over Expenses Before Other Financing Sources	23,380,829
---	------------

**OTHER FINANCING SOURCES**

Contributed Capital	<u>742,700</u>
---------------------	----------------

Increase in Net Position	24,123,529
--------------------------	------------

<b>NET POSITION - BEGINNING OF YEAR</b>	<u>75,559,399</u>
---	-------------------

<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 99,682,928</u></u>
-----------------------------------	-----------------------------



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Federal, State, and Local Agencies	\$ 369,421,533
Payments to Suppliers	(11,113,405)
Payments to Employees	(29,658,091)
Payments for Contracted Services	(308,418,592)
Other Receipts/Payments, Net	3,052,024
Net Cash Provided by Operating Activities	<u>23,283,469</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	(1,091,871)
Proceeds on Sale of Capital Assets	224,408
Net Cash Used in Capital and Related Financing Activities	<u>(867,463)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest	154,678
Net Cash Provided by Investing Activities	<u>154,678</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

22,570,684

Cash and Cash Equivalents - Beginning of Year

99,724,885**CASH AND CASH EQUIVALENTS - END OF YEAR**\$ 122,295,569

Cash and Cash Equivalents

\$ 103,676,619

Restricted Cash and Cash Equivalents

18,618,950

Total Cash and Cash Equivalents

\$ 122,295,569**Reconciliation of operating income to net cash provided from operating activities:**

Operating Income	\$ 23,349,090
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	457,986
Increase in Accounts Receivable	(1,228,989)
Decrease in Prepaid Expenses and Other Assets	729,939
Increase in Pension Related Accounts	(1,097,807)
Increase in Other Postemployment Benefits Liability	140,293
Increase in Accounts Payable and Accrued Expenses	570,870
Increase in Deferred Lease Liability	56,280
Increase in Compensated Absences	305,807
Net Cash Provided by Operating Activities	<u>\$ 23,283,469</u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2015**

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 11,144	\$ -	\$ 11,144	\$ -
Total Current Assets	<u>\$ 11,144</u>	<u>\$ -</u>	<u>\$ 11,144</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Claims Payable	\$ 8,002	\$ -	\$ 8,002	\$ -
Due to Beneficiaries	3,142	-	3,142	-
Total Liabilities	<u>\$ 11,144</u>	<u>\$ -</u>	<u>\$ 11,144</u>	<u>\$ -</u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The Organization is a local management entity (LME) and managed care organization (MCO) designated by and functioning under the control of the North Carolina Department of Health and Human Services to provide mental health, developmental disabilities and substance abuse services in Alexander, Alleghany, Ashe, Avery, Buncombe, Caldwell, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, McDowell, Mitchell, Polk, Rutherford, Swain, Transylvania, Watauga, Wilkes and Yancey counties. The services include reviewing and evaluating the area needs and programs in mental health, mental impairment, mental retardation, alcoholism, drug dependency and related fields, and developing jointly with the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, an annual plan for the effective development, use and control of state and local facilities and resources in a comprehensive program of mental health service for the residents of the area. The Organization, which is governed by a twenty-one member board of directors, is an area authority empowered by Chapter 122C of the North Carolina General Statutes with the responsibility to oversee and control all activities related to mental health, developmental disabilities, and substance abuse services in its target area. The Organization has no component units, which under generally accepted accounting principles are legally separate entities for which the Organization is financially accountable.

**B. Basis of Presentation, Fund Accounting**

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

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation, Fund Accounting (Continued)**

The Organization reports the following major fund:

The *Enterprise Fund*, the major operating fund of the Organization which accounts for all activity. The Enterprise Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Activity related to the internal service fund of the Organization has been presented with the major operating fund for reporting purposes. The internal service fund was used in the past by the Organization to account for health and dental insurance to employees and eligible retirees.

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

The Organization reports the following fund type:

*Agency Fund*. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Organization holds on behalf of others. The Organization maintains the following agency fund: the Flexible Spending Plan under IRS Code Section 125. The Agency Fund is custodial in nature and was not a measure of operating results. This Fund was transferred to the Organization during the merger of Western Highlands Area Authority. During the year ended June 30, 2015, the Agency Fund was dissolved and transferred to the General Fund of the Organization.

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

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Budgetary Data**

The Organization maintains budgetary controls over all funds, as required by the North Carolina General Statutes. An annual budget is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The budget was prepared on the modified accrual basis of accounting. The budget presented in these statements is the budget ordinance amended through June 30, 2015.

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

**1. Deposits and Investments**

All deposits of the Organization are made in board-designated official depositories and are secured as required by G.S. 159-31. The Organization may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Organization may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Organization to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public organization; obligations of certain non-guaranteed Federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Organization's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an 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. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to participants of the fund. The LTIF is also valued at \$1 per share. The Global Ex-U.S. Alpha Tilts Fund B is priced at \$22.00 per share and the Russell 3000 Alpha Tilts Fund B is priced at \$53.04 per share at June 30, 2015.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Equity (Continued)**

**2. Cash and Cash Equivalents**

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

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

**3. Allowance for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and evaluating current information related to the collectability of individual receivables.

**4. Prepaid Items**

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

**5. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Organization are depreciated on a straight-line basis over the following estimated useful lives:

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

**6. Long-Term Obligations**

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Equity (Continued)**

**7. Compensated Absences**

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

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

**8. Deferred Rent**

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

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

In addition to assets, the statement of net position will sometimes report a separate selection for deferred outflows of resources. This separate financial 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. The Organization has two items that meets this criterion - contributions made to the pension plan in the 2015 fiscal year and changes in proportion and difference between the Organization's contributions and proportionate share of contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Organization has one item that meets this criterion – differences between projected and actual earnings on pension plan investments. All of the deferred outflows and inflows of resources result from the implementation of GASB Statement No. 68 (See Note 4).

**10. Net Position**

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Equity (Continued)**

**10. Net Position (Continued)**

**Restricted for Medicaid Risk Reserve**

This classification includes the portion of net position that is restricted by the Medicaid 1915 b/c waiver.

**NOTE 2 DETAILED NOTES ON ALL FUNDS**

**A. Assets**

**1. Cash and Cash Equivalents**

All of the Organization's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the Federal Depository Insurance coverage level are collateralized with securities held by the Organization in its name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Organization, these deposits are considered to be held by their agents in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Organization or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Organization under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Organization has no formal policy regarding custodial credit risks for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance.

At June 30, 2015, the Organization's deposits had a carrying amount of \$108,029,909 and a bank balance of \$108,717,218. Of the bank balance, \$500,000 was covered by Federal Depository Insurance; \$108,217,218 in interest bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2015, the Organization had \$1,350 cash on hand.



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)****A. Assets (Continued)****2. Investments**

At June 30, 2015, the Organization's investments and maturities are as follows:

	Fair Value	Less than 6 Months	6-12 Months	1-3 Years
NC Capital Management Trust	\$ 14,264,310	\$ 14,264,310	N/A	N/A
	<u>\$ 14,264,310</u>	<u>\$ 14,264,310</u>	<u>\$ -</u>	<u>\$ -</u>

\*Because the NC Capital Management Trust Term Portfolio had a duration of 0.3 years, it was presented as an investment with a maturity of less than 6 months.

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

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

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

**3. Receivables**

Receivables at June 30, 2015, were as follows:

	Other Governments	Other Providers	Total
General	\$ 177,477	\$ 5,941,473	\$ 6,118,950
Less Allowance for Doubtful Accounts	-	(166,095)	(166,095)
Total	<u>\$ 177,477</u>	<u>\$ 5,775,378</u>	<u>\$ 5,952,855</u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)****A. Assets (Continued)****4. Capital Assets**

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Assets Held for Sale	\$ 359,098	\$ -	\$ 359,098	\$ -
Land	-	655,870	-	655,870
Construction in Progress	-	196,578	-	196,578
Total Capital Assets not Being Depreciated	<u>359,098</u>	<u>852,448</u>	<u>359,098</u>	<u>852,448</u>
Capital Assets Being Depreciated:				
Buildings	459,634	271,700	184,870	546,464
Vehicles	23,303	26,202	23,303	26,202
Computer Equipment	4,005,053	38,191	1,012,765	3,030,479
Office Furniture	591,811	38,132	-	629,943
Leasehold Improvements	213,311	797,636	-	1,010,947
Total Capital Assets Being Depreciated	<u>5,293,112</u>	<u>1,171,861</u>	<u>1,220,938</u>	<u>5,244,035</u>
Less Accumulated Depreciation for:				
Buildings	69,214	4,036	11,750	61,500
Vehicles	23,304	546	23,304	546
Computer Equipment	2,893,939	336,055	1,012,766	2,217,228
Office Furniture	373,909	51,167	-	425,076
Leasehold Improvements	117,363	71,051	-	188,414
Total Accumulated Depreciation	<u>3,477,729</u>	<u>462,855</u>	<u>1,047,820</u>	<u>2,892,764</u>
Capital Assets, Net	<u>\$ 2,174,481</u>	<u>\$ 1,561,454</u>	<u>\$ 532,216</u>	<u>\$ 3,203,719</u>

In addition, the Organization acquired \$683,977 of minor capital assets that were below the capitalization threshold of \$5,000.

Capital assets with a net book value of \$359,098 had been reclassified as assets held for sale in prior years. In fiscal year 2015, the remaining assets held for sale were sold.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities**

**1. Payables**

Accounts payable, incurred but not reported claims and other current liabilities at June 30, 2015, were as follows:

	Vendors	Accrued Wages and Benefits	Incurred but not Reported Claims	Total
Payables	\$ 13,322,340	\$ 2,837,309	\$ 14,888,208	\$ 31,047,857
Total	<u>\$ 13,322,340</u>	<u>\$ 2,837,309</u>	<u>\$ 14,888,208</u>	<u>\$ 31,047,857</u>

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

**a. Retirement Plan**

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

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**a. Retirement Plan (Continued)**

Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Organization's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Organization's contractually required contribution rate for the year ended June 30, 2015, was 7.07% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Organization were approximately \$1,563,000 for the year ended June 30, 2015.

At June 30, 2015, the Organization reported an asset of approximately \$1,748,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Organization's proportion of the net pension asset was based on a projection of the Organization's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Organization's proportion was 0.30%.

For the year ended June 30, 2015, the Organization recognized pension expense of \$464,836. At June 30, 2015, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)****B. Liabilities (Continued)****2. Pension Plan Obligations, Other Employment Benefits, and Other Postemployment Benefits (Continued)****a. Retirement Plan (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 190,962
Net difference between projected and actual earnings on pension plan investments	-	4,068,499
Changes in proportion and differences between Organization contributions and proportionate share of contributions	1,417,517	-
Organization contributions subsequent to the measurement date	1,562,643	-
Total	<u>\$ 2,980,160</u>	<u>\$ 4,259,461</u>

Deferred outflows of resources of approximately \$1,563,000 resulting from the Organization's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$ (709,718)
2017	(709,718)
2018	(709,718)
2019	(712,790)
	<u>\$ (2,841,944)</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**a. Retirement Plan (Continued)**

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

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, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**a. Retirement Plan (Continued)**

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Organization's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Organization's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Organization's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Organization's proportionate share of the net pension liability (asset)	\$ 5,932,294	\$ (1,747,654)	\$ (8,213,922)

*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.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**b. Other Postemployment Benefits**

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

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

---

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



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**b. Other Postemployment Benefits (Continued)**

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

---

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

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

Membership of the Plan consisted of the following at June 30, 2014, the date of the latest actuarial valuation:

Active plan members	389
Retirees and dependents receiving benefits	<u>8</u>
Total	<u>397</u>

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

The current ARC rate is 1.2% of annual covered payroll. For the current year, the Organization contributed \$56,915, or .34%, of annual covered payroll. The Organization obtains insurance through private insurers for health care coverage. The Organization is not required to make contributions at a specified percentage of covered payroll. Contributions made by retired employees, which includes dependent coverage, totaled \$22,494 in the year ended June 30, 2015.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**b. Other Postemployment Benefits (Continued)**

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

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

Annual Required Contribution	\$ 201,325
Interest on Net OPEB Obligation	9,575
Adjustments to Annual Required Contribution	<u>(13,692)</u>
Annual OPEB Cost	197,208
Contributions Made	<u>(56,915)</u>
Increase in Net OPEB Obligation	140,293
Net OPEB Obligation, Beginning of Year	379,664
Net OPEB Obligation, End of Year	<u><u>\$ 519,957</u></u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**b. Other Postemployment Benefits (Continued)**

The Organization's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for 2015 were as follows:

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

*Fund Status and Funding Progress.* As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$994,739 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$994,739. The covered payroll (annual payroll of active employees covered by the plan) was \$16,770,810, and the ratio of the UAAL to the covered payroll was 5.9 percent.

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

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

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

**b. Other Postemployment Benefits (Continued)**

In the June 30, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The medical cost trend rate of 9.00 percent. The dental cost trend increase of 5.00 percent was assumed. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at June 30, 2014, was 20 years.

**c. Other Employment Benefits**

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

**3. Risk Management**

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Liabilities (Continued)**

**3. Risk Management (Continued)**

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

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

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

**4. Contingent Liabilities**

From time to time, the Organization is party to other pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Organization's financial position or results of operations.

**5. Long-Term Obligations**

As of June 30, 2015, the long-term obligations of the Organization consisted of the following:

	<u>Balance July 1, 2014</u>	<u>Net Increase</u>	<u>Balance June 30, 2015</u>	<u>Amounts Due within One Year</u>
Compensated Absences	\$ 1,402,518	\$ 305,807	\$ 1,708,325	\$ 225,000

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

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 SUMMARY DISCLOSURES OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

**Non-Cancellable Operating Leases**

The Organization leases certain operating facilities under non-cancellable operating leases. Future lease payments due under these leases subsequent to June 30, 2015 are as follows:

Year Ending June 30,	Amount
2016	\$ 883,720
2017	836,475
2018	587,062
2019	598,694
2020	446,909
	<u>\$ 3,352,860</u>

Total rent expense for all operating leases amounted to \$1,050,246 for the year ended June 30, 2015.

**NOTE 4 ADOPTION OF NEW ACCOUNTING STANDARD**

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The objective of this statement is to establish standards for measuring and recognizing assets, deferred outflows of resources, liabilities and deferred inflows of resources and expenses related to benefit plans. Prior to this standard, the Organization funded its share of contributions to the LGERS plan as required by the state, but did not recognize its share of the plan's funded status on its statement of net position.

This statement is effective for the year ended June 30, 2015 and is implemented retroactively. As a result of the adoption of this statement, the Organization recorded a prior period adjustment to decrease its net position as of July 1, 2014 by \$629,454.

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

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

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

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



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

Schedule of Employer Contributions

Year Ended June 30, (b)	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 153,800	64.00%
2011	153,800	56.00%
2012	124,872	99.00%
2013	124,872	21.93%
2014	201,325	28.27%
2015	201,325	28.27%

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

**Local Government Employees' Retirement System**

	<u>2015*</u>
Organization's proportion of the net pension asset (%)	0.296340%
Organization's proportion of the net pension asset (\$)	\$ 1,747,654
Organization's covered-employee payroll	22,101,861
Organization's proportionate share of the net pension asset as a percentage of its covered-employee payroll	7.91%
Plan fiduciary net position as a percentage of the total pension asset**	102.64%

\*The amounts represented for each fiscal year were determined as of the prior fiscal year ended June 30, 2014.

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

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

**Local Government Employees' Retirement System**

Contractually required contribution	\$ 1,562,643
Contributions in relation to the contractually required contribution	<u>1,562,643</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Organization's covered-employee payroll	22,101,861
Contributions as a percentage of covered-employee payroll	7.07%

**SUPPLEMENTAL SCHEDULES  
FOR  
NC DIVISION OF MEDICAL ASSISTANCE REPORTING**

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
SUPPLEMENTAL SCHEDULE  
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS  
JUNE 30, 2015**

**ASSETS**

Cash and Cash Equivalents	\$ 103,676,619
Restricted Cash and Cash Equivalents	18,618,950
Accounts Receivable, Net of Allowance for Uncollectible Accounts and Contractual Allowances	5,952,855
Prepaid Expenses and Deposits	1,046,706
Other Expenses	48,145
Total Assets	<u>\$ 129,343,275</u>

**LIABILITIES**

Accounts Payable	\$ 13,322,340
Accrued Expenses	2,837,309
Liability for Claims Incurred, but not Reported	14,888,208
Total Liabilities	<u>31,047,857</u>

**FUND BALANCES**

Nonspendable	1,094,851
Restricted:	
Stabilization of State Statute	5,952,855
Medicaid Risk Reserve	18,618,950
Committed	4,842,304
Unassigned	67,786,458
Total Fund Balances	<u>98,295,418</u>
 Total Liabilities and Fund Balances	 <u>\$ 129,343,275</u>

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

Fund Balance	\$ 98,295,418
Capital Assets Used in Governmental Activities are not Financial Resources and therefore, are not Reported in the Funds	3,203,719
Deferred Inflows and Outflows are not Reported in the Funds	(1,279,301)
Net Pension Assets are not a Financial Resource and therefore, are not Reported in the Funds	1,227,697
Deferred Liability for rent is not due and payable in the current period and, therefore is not Reported in the Fund	(56,280)
Liability for Compensated Absences is not Due and Payable in the Current Period and therefore, is not Reported in the Fund	(1,708,325)
	<u>\$ 99,682,928</u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
SUPPLEMENTAL SCHEDULE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS – MODIFIED ACCRUAL BASIS  
YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Intergovernmental:				
State & Federal	\$ 62,149,529	\$ 65,229,118	\$ 62,379,466	\$ (2,849,652)
Local	2,956,711	2,939,599	2,939,599	-
Medicaid	290,865,543	294,756,488	305,331,457	10,574,969
Other Income	1,212,204	2,039,565	2,560,877	521,312
Total Revenues	<u>357,183,987</u>	<u>364,964,770</u>	<u>373,211,399</u>	<u>8,246,629</u>
<b>EXPENDITURES</b>				
Personnel & Professional Services	33,107,109	34,485,983	32,978,015	1,507,968
Supplies	226,868	479,378	320,880	158,498
Current Obligations	3,273,247	3,794,948	3,327,535	467,413
Fixed Expenses	3,966,646	4,789,814	3,794,064	995,750
Capital Outlay	750,000	2,075,723	1,314,207	761,516
Contracts	316,185,117	321,751,924	308,989,462	12,762,462
Total Expenditures	<u>357,508,987</u>	<u>367,377,770</u>	<u>350,724,163</u>	<u>16,653,607</u>
Revenues Over (Under) Expenditures Before Other Financing Sources	(325,000)	(2,413,000)	22,487,236	24,900,236
<b>OTHER FINANCING SOURCES:</b>				
Transfer from Other Funds	-	-	1,008,015	(1,008,015)
Appropriated Fund Balance	325,000	2,413,000	-	(2,413,000)
			<u>1,008,015</u>	<u>(3,421,015)</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	23,495,251	<u>\$ 21,479,221</u>
Fund Balance - Beginning			<u>74,800,167</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 98,295,418</u>	

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
SUPPLEMENTAL SCHEDULE RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED  
ACCRUAL BASIS TO THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET  
POSITION  
JUNE 30, 2015**

Net Changes in Fund Balances - Total Governmental Funds	\$ 23,495,251
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 capital outlay exceeded depreciation in the current period.	645,513
Expenses related to compensated absences in the statement of activities that do not require current financial resources are not reported as expenses in the funds.	(305,807)
OPEB and Pension funding in the statement of activities that do not require current financial resources are not reported in the funds.	957,514
Some expenses in the Statements of Revenues, Expenses and Changes in Net Position that do not require current financial resources are not reported as expenses on a modified accrual basis	(56,280)
Revenues related to contributed capital in the statement of activities that did not produce current financial resources are not reported as expenses in the funds	742,700
Transfer of net assets of the internal service fund and agency fund already included in the full accrual statements and therefore not shown in the changes in fund balance	(1,008,015)
Book Value of Disposed Capital Assets	<u>(347,347)</u>
Change in Net Assets	<u><u>\$ 24,123,529</u></u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
SCHEDULE OF COMMITTED FUND BALANCES  
JUNE 30, 2015**

Unemployment Compensation	\$ 500,000
Annual Leave Payout	1,200,000
Administrative Offices	1,681,125
Facility Based Crisis - Caldwell County	320,000
Western Highlands - County	141,179
Retention Risk Reserve	1,000,000
	<u>\$ 4,842,304</u>



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES,  
AND SUBSTANCE ABUSE SERVICES  
STATEMENT OF NET POSITION - INTERNAL SERVICE FUND  
JUNE 30, 2015**

**ASSETS**

Cash and Cash Equivalents

\$ -

Total Assets

\$ -

**LIABILITIES**

Claims Payable

\$ -

**NET POSITION**

Unrestricted

-

Total Liabilities and Net Position

\$ -

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
STATEMENT OF CHANGES IN NET POSITION – INTERNAL SERVICE FUND  
YEAR ENDED JUNE 30, 2015**

**Nonoperating Revenues (Expense)**

Transfer to General Fund	<u>\$ (996,388)</u>
<b>Change in Net Position</b>	(996,388)
<b>Net Position, Beginning of Year</b>	<u>996,388</u>
<b>Net Position, End of Year</b>	<u><u>\$ -</u></u>

## **Compliance Section**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the major fund and fiduciary fund of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services (the "Organization"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 29, 2015.

**Internal Control Over Financial Reporting**

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

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

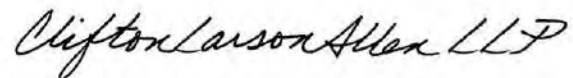
Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

**CliftonLarsonAllen LLP**

Charlotte, North Carolina  
October 29, 2015



**INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR FEDERAL AND STATE PROGRAM,  
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE  
SINGLE AUDIT IMPLEMENTATION ACT**

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

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

We have audited Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services’ (the “Organization”) compliance with the types of compliance requirements described in the *OMB Circular A-133 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 its major Federal and state programs for the year ended June 30, 2015. The Organization’s major Federal and state programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal and state programs.

***Auditors’ Responsibility***

Our responsibility is to express an opinion on compliance for each of Organization’s major Federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission. Those standards, OMB Circular A-133 and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal and state program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### Opinion on Each Major Federal and State Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal and state programs for the year ended June 30, 2015.

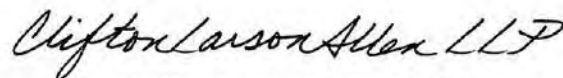
### Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133 and the Audit Manual for Governmental Auditors in North Carolina. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Charlotte, North Carolina  
October 29, 2015

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

Financial Statements

Type of auditors’ report issued: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified?                    \_\_\_yes                      X  no
- Significant deficiencies identified  
that are not considered to be material weaknesses?    \_\_\_ yes                      X  no

Noncompliance material to financial statements noted?                    \_\_\_yes                      X  no

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified?                    \_\_\_yes                      X  no
- Significant deficiencies identified  
that are not considered to be material weaknesses?    \_\_\_yes                      X  none reported

Noncompliance material to financial statements noted?    \_\_\_yes                      X  no

Type of auditors’ report issued on compliance for major Federal programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?                    \_\_\_yes                      X  no

Identification of major Federal programs:

<b>CFDA Numbers</b>	<b>Names of Federal Program or Cluster</b>
93.958	Block Grant for Community Mental Health Programs
93.959	Block Grant for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B Programs                      \$ 300,000  

Auditee qualified as low-risk auditee?                      X  yes                    \_\_\_no



**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2015**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS (CONTINUED)**

**State Awards**

Internal Control over major State programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Noncompliance material to State awards?  yes  no

Type of auditors’ report issued on compliance for major State programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?  yes  no

Identification of major State programs:

**Program Name**

- LME Systems Management
- Single Stream Funding
- Crisis Services

**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.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2015**

**SECTION V – SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**Finding 2014-001:**

**Type:** Significant Deficiency in Financial Reporting

**Criteria:** Smoky Mountain Center has traditionally maintained the accounting for revenues and receivables generally on the cash basis rather than on the full accrual method of accounting.

**Condition:** Since the final audit of Western Highlands has been ongoing for several months, we were unable to determine the accuracy of the receivables that were being transferred as part of the merger as well as intercompany receivables/payables between the two organizations until that audit was complete. In addition, we have noted that since Smoky uses a “hybrid” method of accounting for receivables, there were significant “clean up” entries required which has delayed the final review and issuance of the audited financial statements for the organization.

**Effect:** Smoky Mountain Center’s internal financial statements since the merger were inaccurate because of the unreconciled differences impacting receivables, intercompany payables, and the transfers of assets and liabilities from the merger.

**Cause:** The use of the hybrid cash basis of accounting did not bring to the attention of management the need to reconcile receivable accounts more promptly.

**Questioned Costs:** None.

**Recommendation:** We recommend that the organization begin using the full accrual method of accounting for all financial statement classes and/or categories. Account balances should be regularly reviewed and reconciled to subsidiary records. Not only will the adoption of the full accrual method of account result in improved controls over financial reporting internally, but it will also improve the accuracy of external financial reporting to Federal, State, and other users of the financial statements.

**Views of responsible officials and planned corrective actions:** Smoky Mountain Center agreed with this finding and had already begun to address the policies and procedures related to accounts receivable and revenues. During fiscal year 2014, there was significant staff turnover with the Western Highlands merger for different reasons. Management believes that the turnover was both unprecedented in scope and non-recurring. During 2015 fiscal year, a Senior Director – Finance as well as an Accounting Manager were hired, filling roles that were vacant throughout most of fiscal year 2014. Processes to streamline and improve the revenue recognition and recording of receivables for all sources of LME/MCO funding have been put in place to strengthen internal controls over financial reporting of accounts receivable.

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED JUNE 30, 2015**

	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
<b>Federal Awards</b>			
<u>U.S. Department of Housing and Urban Development</u>			
Shelter Plus Care Program	14.238	\$ 799,708	\$ -
Total U.S. Department of Housing and Urban Development		<u>799,708</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>			
<u>Substance Abuse and Mental Health Service Administration</u>			
Passed-through the NC Dept. of Health and Human Services: Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Projects for Assistance in Transition from Homelessness	93.150	210,373	
Social Services Block Grant	93.667	548,069	
Block Grant for Community Mental Health Services - Community Based Program-Mental Health	93.958	1,674,228	-
Block Grant for Prevention and Treatment of Substance Abuse - Substance Abuse-Substance Abuse Prevention	93.959	<u>4,602,450</u>	<u>-</u>
Total U.S. Department of Health and Human Services		<u>7,035,120</u>	<u>-</u>
Total Federal Awards and State Matches		7,834,828	-
<b>State Awards</b>			
NC Department of Health and Human Services Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Single Stream Funding		-	45,105,684
Multi Disciplinary Evaluations and Forensic Evaluations		-	6,750
DOJ - Supported Employment		-	274,112
Gambling Addition Education Treatment		-	250,000
Bridge Funding		-	228,342
Traumatic Brain Injury		-	100,000
DOJ - Housing		-	22,500
Total Single Stream Funding		<u>-</u>	<u>45,987,388</u>
LME Administration		<u>-</u>	<u>5,523,712</u>
Crisis Services			
Local Psych Inpatient		-	3,778,356
Community Based Crisis		-	49,350
Total Crisis Services		<u>-</u>	<u>3,827,706</u>
Total Division of Mental Health, Developmental Disabilities and Substance Abuse Services:		<u>-</u>	<u>55,338,806</u>
Total State Awards		<u>-</u>	<u>55,338,806</u>
Total Federal and State Awards		<u>\$ 7,834,828</u>	<u>\$ 55,338,806</u>

**SMOKY MOUNTAIN CENTER FOR MENTAL HEALTH, DEVELOPMENT DISABILITIES, AND  
SUBSTANCE ABUSE SERVICES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED JUNE 30, 2015**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of Federal and state awards includes the Federal and state grant activity of Smoky Mountain Center for Mental Health, Developmental Disabilities, and Substance Abuse Services presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

**NOTE 2 CONTINGENCIES**

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

Blank Page

**AGENDA ITEM 5:**

**REQUEST TO RENEW CONTRACT WITH COURTHOUSE COMPUTER SYSTEMS**

**MANAGER'S COMMENTS:**

Register of Deeds, Amy Shook, will present a request to renew the contract with Courthouse Computer Systems, in the amount of \$36,225 and will be effective July 1, 2016 through June 30, 2020. The contract remains the same with the exception of the 5% price increase. However, the \$36,225 is locked in for the next four (4) years. The County Attorney has reviewed the contract with Courthouse Computer Systems and recommends approval.

Board approval is required.

## **Courthouse Computer Systems-Software License and Support Agreement**

THIS AGREEMENT made by and between Courthouse Computer Systems, Inc. ("Licensor") and the Watauga County Register of Deeds office ("Licensee").

The "Agreement" covers data conversion, licensing, software support website maintenance, and microfilm conversion for a contract period of July 1, 2016 through June 30<sup>th</sup> 2020 as outlined below:

### **1. Definitions**

- 1.1. "Designated Environment" means the computer equipment currently in place in the office.
- 1.2. "Error" means a material failure of the Software to function in conformity with the Specifications.
- 1.3. "Licensed Copies" means the number of copies of the Software being licensed to the Licensee.
- 1.4. "Location(s)" means the Licensee office at 842 West King Street, Boone, NC 28607.
- 1.5. "Office" means the Watauga County Register of Deeds office.
- 1.6. "Software" refers to any of the supported software modules defined in section two of this Agreement.

### **2. Software Modules Included**

1. Document Recording and Cashiering
2. Document Indexing
3. Document Retrieval
4. Document Imaging
5. Internet Document Retrieval
6. Fee Reporting
7. Vital Records Management
8. Marriage License Issuance
9. Online Marriage Application (both Internet and Office Kiosk)
10. Image Redaction
11. E-Recording
12. User Accounting-including support of escrow accounts

Functionality incorporated within these software modules includes, but is not limited to:

1. The ability to easily export records in the system to an ASCII text file format to ensure forward compatibility without costly data conversion if the county decides to switch to a different software vendor at a later date. This guarantees complete safety and security by ensuring that your data will always be readable in the future. The Register of Deeds office can create and store these files on a daily basis.

2. The seamless integration of Point of Sale (POS) stations with the indexing system. The POS module operates as the office cash register by

controlling the cash drawer, printing receipts, and producing detailed ledger reports of all transactions.

3. The immediate accessibility of documents for in-office retrieval. If desired, original documents may be scanned immediately for viewing on retrieval stations throughout the office.

4. The automatic generation of monthly reports that reference the complete set of financial data maintained in the system.

5. The ability to print traditional index books on-demand.

6. The ability to print traditional document books on-demand.

7. The ability to back-index and back scan vital records.

8. The ability to back-scan document books.

9. Compliance with the 2012 North Carolina Standards for Indexing Real-Property documents as well as any subsequent standards that take effect.

10. Perform those functions and operate in compliance with all representations contained in Licensor's promotional literature.

### **3. Services Provided by Licensor**

1. Data Conversion-the Licensor will convert all existing document images. Licensor will also convert and load all indexing data from the existing software system. All document image conversion and computerized index data conversion will be conducted as part of the Agreement.

2. Website Maintenance- The Licensor will provide Internet hosting of Land Record Indexes and Images for the Licensee. The Licensee will have the capability to upload new index information and images on a daily basis.

3. Telephone Support- The Licensor will provide telephone numbers that can be used as needed by the Licensee for assistance regarding the supported Software Modules and services. Telephone support is available during normal business hours (8:00AM to 5:00PM Monday through Friday). Licensor responds to all telephone support issues based upon the criticality of the issue, with systems that are completely non-functional receiving highest priority. Licensor endeavors, but does not guarantee, to respond to all non-critical issues within one business day.

4. Remote Support-Licensor will provide remote on-line support for the software modules through direct broadband connectivity provided by the Licensee. Remote online support allows the Licensor to perform system troubleshooting and make certain updates or configuration changes more quickly. Licensor agrees that it shall use the method of Remote Access chosen by the Licensee. This method may be subject to change as determined by the Information Technology Director for Licensee.

5. Microfilm Copies- The Licensor will be responsible for regular creation of archival copies of documents by converting the scanned images into microfilm. Licensor will deliver microfilm copies to the North Carolina Department of Archives. Upon delivery of each batch of microfilm copies, Licensee will be sent confirmation of the individual books included in the batch.



6. Additional Services-The Licensor is available to provide additional services as needed at separately negotiated rates that are not included within the terms of this Agreement. These services include, but are not limited to, back-file document scanning, and making images of old index books electronically searchable.

7. Statutory Changes-If changes are required either by general statute or state guidelines, the licensor will make necessary software updates at no charge to ensure compliance.

#### **4. Licensee Responsibilities**

1. Licensee shall permit secured remote access to the Supported server and PC desktops in order for Licensor to provide service.

2. Licensee shall periodically complete a total backup of all databases maintained by the office.

3. Licensee shall permit free and full access, including secure remote access, to the Supported Hardware in order for Licensor to provide service.

4. Licensee shall provide equipment that is dependable and sufficient to meet the needs of the office.

5. Licensee shall provide remote connectivity, using a method of Licensee's choosing, so that Licensor can securely connect to the network and access individual machines in the Register of Deeds office to provide support.

#### **5. Licensor Responsibilities**

1. Licensor shall protect any of the Licensee's confidential information and shall not disclose any of the Licensee's information, public or private, to any third party without written consent from the Watauga County Register of Deeds.

2. While the Licensor is connected to Watauga County over VPN, the Licensor shall protect the County network by maintaining current antivirus software and updates on any connecting PC's and not attempting to connect to any PC's or servers on the Watauga County network that are not PC's or servers used by the Register of Deeds office.

3. Licensor shall not disclose any of Watauga County's network or authentication information to third parties without the written consent of the Watauga County Information Technologies Director.

4. Licensor shall not change any security settings on PC's or servers without the written consent of the Watauga County Information Technologies Director. Security settings may include but are not limited to the creation of network shares, firewall settings, user group assignment, and folder or registry permissions.

#### **6. Loaner Equipment**

During the installation of software in the office, the Licensor may loan computer equipment to assist in the transition. All equipment provided by the Licensor remains the property of the Licensor. Any loaner equipment provided by the Licensor will be done so free of charge.

## **7. Software License**

Licensor grants Licensee a non-exclusive, non-transferable license to use up to sixteen copies of the Software and Documentation solely for its internal operations at the Location(s) and on the Designated Environment for the term of this Agreement. All Software and Documentation remains the property of the Licensor. Licensee agrees to not make unauthorized copies of the Software and Documentation.

## **8. Proprietary Rights**

Licensee acknowledges and agrees that the copyright, patent, trade secret, and all other intellectual property rights of whatever nature in the Software or Documentation are and shall remain the property of the Licensor, and nothing in this Agreement should be construed as transferring any aspect of such rights to the Licensee.

## **9. Confidentiality**

### **9.1 Confidential Information**

“Confidential Information”, shall mean the Software, Documentation, and terms and conditions of this Agreement. Licensee acknowledges the confidential and proprietary nature of the Confidential Information and agrees that it shall not reveal or disclose any Confidential Information for any purpose to any other person, firm, corporation, or other entity, other than office or county employees with a need to know such confidential information to perform employment responsibilities consistent with Licensee’s rights under this Agreement. Licensee shall safeguard and protect the Confidential Information from theft, piracy, or unauthorized access in a manner at least consistent with the protections Licensee uses to protect its own most confidential information and in a manner conforming to industry standards, whichever is greater.

### **9.2 Unauthorized Disclosure**

Licensee shall notify Licensor immediately upon discovery of any prohibited use or disclosure of Confidential Information, or any other breach of confidentiality and shall fully cooperate with the efforts of Licensor to regain possession of the Confidential Information and to prevent the further prohibited use or disclosure of the Confidential Information.

## **10. Warranty**

Licensor represents to Licensee that: (1) during the Agreement Period, the Software shall operate without any Errors; and (2) upon notification to Licensor during the Agreement Period of any errors, Licensor will, during its normal business hours and at no cost to Licensee, use reasonable efforts to correct such Errors which are reproducible and verifiable by Licensor. Licensor further warrants that the Software will perform its intended purpose and shall comply with all representations made in its promotional literature.

## **11. Price**

For the Software License and Implementation Services outlined in this Agreement, Licensee agrees to pay Licensor and annual maintenance and support fee of \$36,225 and no cents. The Licensor agrees that the annual maintenance and support fee for the services outlined in this Agreement will not increase for the duration of the Agreement.

## **12. Optional Additional Services**

### **12.1 Customization and Extensive Data Conversion**

Additional time allotments for software customization are available on a time and materials basis of \$125 per hour.

## **13. Term and Termination of Agreement**

### **13.1 Termination and Remedy**

Licensee may terminate the Agreement without prejudice to any other remedy Licensee may have, in the event of any material breach of this Agreement which is not remedied within thirty days of Licensee's notice to Licensor of the breach and Licensee's intent to terminate the License. Termination shall not relieve Licensee's obligation to pay all amounts that are already accrued and owing or which Licensee has agreed to pay.

### **13.2 Breach**

The Licensor may terminate this Agreement, without prejudice to any other remedy Licensor may have, immediately without further obligation to Licensee, in the event of any breach by Licensee, which cannot be remedied within thirty days of Licensor's notice to Licensee of the breach and Licensor's intent to terminate the License.

### **13.3 Cessation of Use**

Upon Termination of this Agreement, Licensee will cease using the Software and Documentation and return all copies of the Software, Documentation, and all other Confidential Information in its possession or destroy all copies of such materials residing in computer memory. Licensor shall be entitled to enter the Location(s) to repossess any Software, Documentation, and any other Confidential Information, so long as such repossession does not compromise the future ability of the Register of Deeds to access and retrieve electronic records in accordance with the statutory duties of the Register of Deeds. Licensee shall, within thirty days from the effective date of termination, certify in writing that all copies of the Software and Documentation have been returned, deleted and destroyed.

### **13.4 Non-Appropriation**

Licensor acknowledges that Licensee is a governmental entity, and the contract validity is based upon the availability of public funding under the authority of its statutory mandate.

In the event that public funds are unavailable and not appropriate for the performance of Licensee's obligations under this contract, then this contract shall automatically expire without penalty to Licensee thirty (30) days after written notice to Licensor of the unavailability and non-appropriation of public funds. It is expressly agreed that Licensee shall not activate this non-appropriation provision for its convenience or to circumvent the requirements of this contract, but only as an emergency fiscal measure during a substantial fiscal crisis, which affects generally its governmental operations.

In the event of a change in the Licensee's statutory authority, mandate and mandated functions, by state and federal legislative or regulatory action, which adversely affects Licensee's authority to continue its obligations under this contract, then this contract shall automatically terminate without penalty to Licensee upon written notice to Licensor of such limitation or change in Licensee's legal authority.

#### **14. Renewal**

This Agreement will renew automatically for subsequent terms of one year. Licensor shall notify Licensee sixty days in advance of the renewal date of any changes to the Agreement. Acceptance will be assumed if the Licensee does not notify Licensor at least thirty days prior to the renewal date.

#### **15. Validity**

If any part of this Agreement is held to be illegal or unenforceable, the validity or enforceability of the remainder of this Agreement shall not be affected.

#### **16. Survival**

Sections 6, 7 and 8 shall survive the termination of this Agreement for any reason.

#### **17. Entire Agreement**

This Agreement and its schedules and Addendums comprise the entire Agreement between the parties for licensing and support and is not subject to change or modification except by written Agreement signed by both parties.

#### **18. Assignment**

Neither party may assign this agreement without the written consent of the other party to this Agreement.

LICENSOR:

LICENSEE:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Jimmy Hodges  
Chairman, Watauga County  
Commissioners

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

Attest:

\_\_\_\_\_  
Anita Fogle  
Clerk to the Board

This instrument has been pre-audited in the manner required by the Local Government Budget and Fiscal Control Act.

\_\_\_\_\_  
Margaret Pierce  
Watauga County Finance Officer

**AGENDA ITEM 6:****REQUEST TO ACCEPT HMGP GRANT****MANAGER'S COMMENTS:**

In August of 2014, the Board approved the submittal of an application to the Hazardous Mitigation Grant Program (HMGP) for funding for the demolition and removal of a home located at 131 Morningside Drive in Boone. Several years ago numerous homes located in the area were demolished and removed along Morningside Drive as part of a HMGP project. At that time, the subject property owner was not interested in participating in the project. However, continued flood related issues after the sale of the home has prompted the new owners to request participation in the HMGP. Based on conversations with Mr. Sudderth, the Town of Boone was not interested in participating in the current application leaving the County the only option for assistance and relief for the home owner.

The total cost of the project is \$215,874 with a required match of \$53,968.50, which is to be paid by the State. The only cost to the County would be staff time and maintenance (mowing/weed eating) of the property once the project is completed. Staff would continue to work with the Town for possible incorporation into the existing lots already mitigated.

Board approval is required to accept the grant from the Hazardous Mitigation Grant Program (HMGP) in the amount of \$215,874 with the required match of \$53,968.50 to be paid by the State.



U.S. Department of Homeland Security  
 FEMA Region IV  
 3003 Chamblee Tucker Road  
 Atlanta, GA 30341

**FEMA**

February 5, 2016

Mr. Michael Sprayberry, Director  
 North Carolina Department of Public Safety  
 Division of Emergency Management  
 4105 Reedy Road  
 Raleigh, North Carolina 27607

Attention: Mr. Nicholas Burk

Reference: HMGP 4153-0006 Watauga County Acquisition of One (1) Residential Structure

I am pleased to inform you that the project referenced above has been approved for \$215,874.00 with a Federal share of \$161,905.00. The project non-federal share of \$53,969.00 is provided by the State of North Carolina.

The following is the approved Statement of Work (SOW) for the above referenced project:

**Watauga County proposes to purchase and demolish one residential structure. This property is located at 131 Morningside Drive, Boone, NC 28607 which lies within the special flood hazard area of the Benbo Branch of the Catawba River. The structure will be demolished, including complete removal of the existing foundations. Ground disturbance will not exceed two (2) feet below surface grade and will be confined to the area of the physical property structure. Debris will be removed and each site will be graded to positively drain and will be returned to their natural state thus reclaiming the natural and beneficial functions of the floodplain. Staging of demolition equipment and supplies will be located within the existing property boundaries. These sites will be deeded to and maintained by Watauga County in perpetuity as Open/Green space.**

FEMA will not establish activity completion timeframes for individual subgrants. The period of performance of the grant award will be 36 months from the close of the application period for DR-4153.

Environmental Conditions:

NHPA:

If human remains or intact archaeological deposits are uncovered, work in the vicinity of the discovery will stop immediately and all reasonable measures to avoid or minimize harm to the finds will be taken. The applicant will ensure that archaeological discoveries are secured in place, that access to the sensitive area is restricted, and that all reasonable measures are taken

to avoid further disturbance of the discoveries. The applicant's contractor will provide immediate notice of such discoveries to the applicant. The applicant shall contact the North Carolina State Archaeologist and FEMA within 24 hours of the discovery. Work in the vicinity of the discovery may not resume until FEMA has completed consultation with SHPO, Tribes, and other consulting parties as necessary. In the event that unmarked human remains are encountered during permitted activities, all work shall stop immediately and the proper authorities notified in accordance with North Carolina Statutes, Section 70-29.

**RCRA:**

Applicant shall handle, manage, and dispose of potentially hazardous waste, universal waste, and hazardous materials in accordance with the requirements of local, state, and federal regulations. These materials may include, but are not limited to propane cylinders, paints and solvents, coolants containing chlorofluorocarbons (CFCs), used oil, other petroleum products, used oil filters, fuel filters, cleaning chemicals, laboratory reagents, pesticides, batteries, and unlabeled tanks and containers. Equipment that may include these materials are ice machines, refrigerators, generators, computers, televisions, mercury switches, fluorescent lights, fluorescent light ballasts, sandblast units, paint sprayers, etc.

**TSCA:**

If any asbestos containing material, lead based paint, and/or other toxic materials are found during construction activities, the applicant must comply with all federal, state and local abatement and disposal requirements under the Toxic Substances Control Act (TSCA).

This review does not address all federal, state, and local requirements. Acceptance of federal funding requires recipient to comply with all federal, state, and local laws. Failure to obtain all appropriate federal, state, and local environmental permits and clearances may jeopardize federal funding.

If ground disturbing activities occur during construction, applicant will monitor ground disturbance and if any potential archeological resources are discovered, will immediately cease construction in that area and notify the State and FEMA.

This project must adhere to all program guidelines established for the Hazard Mitigation Grant Program.

For close-out of this project, the Governor's Authorized Representative shall send a letter of request to close the project programmatically and financially. The letter will include the following: the date work on the project was fully completed, the date of the Recipient's final site inspection for the project, the final total project cost and Federal share, any cost underrun, a certification that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the required programmatic, environmental, and any other conditions were met (including attachment of any required documentation) and that the mitigation measure is in compliance with the provisions of the Agreement Articles and this approval letter. A copy of the Recipient's final site inspection report will be enclosed with the close-out request letter. This report will contain, at minimum, all the data fields required for final site inspection reports for our HMGP program. The recipient will ensure that all documentation necessary to close the project in the Property Site Inventory is also provided in the close-out request letter. For property acquisition and relocation projects, signed and dated copies of the open space deed restrictions must be provided at close-out.



Quarterly progress reports for HMGP projects are required. Please include this HMGP project in your future quarterly reports.

The National Environmental Policy Act (NEPA) stipulates that additions or amendments to a HMGP sub-recipient SOW may have to be reviewed by all State and Federal agencies participating in the NEPA process.

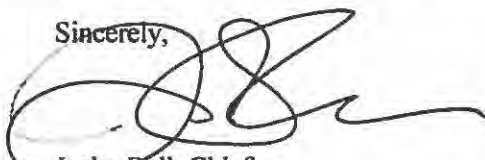
The State (Recipient) must obtain prior approval from the Federal Emergency Management Agency (FEMA) before implementing changes to the approved project SOW. Per the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments:

- The recipient must obtain prior written approval for any budget revision which would result in a need for additional funds.
- A change in the scope of work must be approved by FEMA in advance regardless of the budget implications.
- The recipient must notify FEMA as soon as significant developments become known, such as delays or adverse conditions that might raise costs or delay completion, or favorable conditions allowing lower cost or earlier completion.
- Any extensions of the grant POP must be submitted to FEMA 60 days prior to the expiration date.

The obligation report is enclosed for your records. Management and environmental reports are available in NEMIS. The obligated funds are available for withdrawal from **Smartlink** on sub-account number **4153DRNCP00000005**.

If you have any questions, please contact Shemeeka Hopkins of my staff at (770) 220-8788.

Sincerely,



Jacky Bell, Chief  
Hazard Mitigation Assistance Branch  
Mitigation Division

Enclosure

02/10/2016  
9:03 PM

FEDERAL EMERGENCY MANAGEMENT AGENCY  
HAZARD MITIGATION GRANT PROGRAM

030116 BCC Meeting  
HMGP-OB-01

Obligation

Disaster No	FEMA Project No	Amendment No	State Application ID	Action No	Supplemental No	State	Grantee
4153	6-R	0	5	1	2	NC	Statewide

Subgrantee: Watauga (County)

Project Title : Watauga County: Acquisition of 1 (one) Residential Structure

Subgrantee FIPS Code: 189-99189

Total Amount Previously Allocated	Total Amount Previously Obligated	Total Amount Pending Obligation	Total Amount Available for New Obligation
\$161,906	\$161,906	\$0	\$0

Project Amount	Grantee Admin Est	Subgrantee Admin Est	Total Obligation	IFMIS Date	IFMIS Status	FY
\$161,906	\$0	\$0	\$161,906	02/10/2016	Accept	2016

Comments

Date: 02/10/2016 User Id: SHOPKIN4

Comment: 4153-0006-R-NC-DR-HMGP Allocation no. 3, Applcn 5, Watauga County Acquisition of One (1) Residential Structure - project approved for a total project cost of \$215,874, federal share \$161,906, and non-federal share of \$53,968

Date: 02/10/2016 User Id: DVANDEW1

Comment: 4153-0006-R-NC-DR-HMG Applcn 5, Amend 0 Action 1, Watauga County Acquisition of One (1) Residential Structure - project approved for a total project cost of \$215,874, federal share \$161,906, and non-federal share of \$53,968 approved, HMO.

Authorization

Preparer Name: SHEMEEKA HOPKINS

Preparation Date: 02/10/2016

HMO Authorization Name: DAVID VANDEWATER

HMO Authorization Date: 02/10/2016

Blank Page

**AGENDA ITEM 7:**

**REQUEST TO SURPLUS EQUIPMENT**

**MANAGER'S COMMENTS:**

Ms. Pierce will request the Board surplus a 2007 Case Wheel Loader.



# WATAUGA COUNTY

## FINANCE OFFICE

---

814 West King St., Room 216 - Boone, NC 28607 - Phone (828) 265-8007 Fax (828) 265-8006

### MEMORANDUM

TO: Deron T. Geouque, County Manager

FROM: Margaret Pierce, Finance Director

SUBJECT: Surplus Property

DATE: February 25, 2016

This is a request to surplus County property - 2007 Case Wheel Loader. I request the Board of Commissioners declare the item surplus and approve disposal by electronic auction on GovDeals. This approval is necessary as we anticipate the sale price on the truck exceeded the County resolution allowing the County Manager to approve surplus under \$30,000.

Board action is requested.

**AGENDA ITEM 8:****MISCELLANEOUS ADMINISTRATIVE MATTERS*****A. Boards and Commissions*****MANAGER'S COMMENTS:****Watauga Medical Center Board of Trustees**

The Watauga Medical Center Board of Trustees has recommended Mrs. Kim Miller and Ms. Jan Winkler for reappointment and Mr. Kent Tarbutton for appointment as Board Trustees. Each of their terms would be effective January 1, 2016, through December 31, 2018. A volunteer application has also been received and forwarded to the Watauga Medical Center Board of Trustees from Ms. Michaela Hastings Haas who is interested in serving on this Board. These are second readings.

Staff contacted the Medical Center Administration and they stated the Board of Trustees would not meet again until March 24<sup>th</sup> but the Nominating Committee was trying to schedule a conference call. That being said, there isn't any update at this time.

**Personnel Advisory Committee**

County Manager Geouque stated that the Watauga County Personnel Ordinance established a Personnel Advisory Committee which is comprised of five (5) persons designated by the Board, authorized to hear employee grievances, and recommend decisions to the appointing authority. The Committee consists of one (1) Commissioner, one (1) department head and three (3) non-supervisory regular employees. Current members of the Personnel Advisory Committee are as follows:

<b><u>Employee</u></b>	<b><u>Position</u></b>
Ms. Angie Boitnotte	Department Head
VACANT	Regular Employee
Mr. John Spear	Regular Employee
Ms. Amy Parsons	Regular Employee
Mr. Jimmy Hodges	County Commissioner
Ms. Regina Houck	Alternate Member

Mr. Brandon Saunders position is now vacant as he is no longer employed with the County. Staff recommends appointing Ms. Regina Houck as the Regular Employee member and appointing Derrick Ellison as the new Alternate Member.

Board action is requested.



Richard G. Sparks, FACHE  
President

December 11, 2015

Mr. Deron Geoque  
Watauga County Manager  
814 West King Street, Suite 205  
Boone, NC 28607

Dear Deron:

The Watauga Medical Center, Inc. Board of Trustees at their December 10, 2015 meeting unanimously approved submitting the following names to be considered by the Watauga County Commissioners for appointment to the Board of Trustees. These will be three year terms beginning January 1, 2016 and ending December 31, 2018.

Mrs. Kim Miller (current Trustee nominated for Reappointment)  
Mrs. Jan Winkler (current Trustee nominated for Reappointment)  
Mr. Kent Tarbutton

Mr. Tarbutton is the owner/operator of Chetola Resort in Blowing Rock. He is active in Blowing Rock supporting many community programs. He previously served on the Blowing Rock Hospital Board of Trustees and subsequently the Blowing Rock Hospital Advisory Board.

Thank you for your assistance and please feel let me know if you need additional information.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Sparks", is written over a light blue rectangular background.

Richard Sparks

Volunteer Application  
Watauga County Boards And Commissions

Resume Attached  
030116 BCC Meeting

If you are a Watauga County resident, at least 18 years old, and willing to volunteer your time and expertise to your community, please complete the application below and click on Print Form. Please sign and mail or fax to:

Watauga County Commissioners' Office  
814 West King Street, Suite 205  
Boone, NC 28607  
Phone: (828) 265-8000  
Fax: (828) 264-3230



Name: Michael Hastings Haas  
Home Address: \_\_\_\_\_  
City: \_\_\_\_\_ Zip: \_\_\_\_\_  
Telephone: (H) \_\_\_\_\_ (W) \_\_\_\_\_ (Fax) \_\_\_\_\_  
Email: \_\_\_\_\_  
Place of Employment: \_\_\_\_\_  
Job Title: \_\_\_\_\_

In Order To Assure County wide Representation Please Indicate Your Township Of Residence:

- Bald Mountain
- Stony Fork
- Watauga
- New River
- Brushy Fork
- Cove Creek
- Beaver Dam
- Meat Camp
- Shawneehaw
- Blue Ridge
- Blowing Rock
- Laurel Creek
- Elk
- North Fork
- Boone

In addition, Please Indicate If You Live In One Of The Following Areas:

- Foscoe-Grandfather Community
- Valle Crucis Historic District
- Howards Creek Watershed
- Winklers Creek Watershed
- South Fork New River Watershed
- Extraterritorial Area

We Ask Your Help In Assuring Diversity Of Membership By Age, Gender, And Race, By Answering The Following Questions

- |   |   |
|---|---|
| <p>Gender</p> <input type="radio"/> Male<br><input checked="" type="radio"/> Female | <p>Ethnic Background</p> <input type="radio"/> African American<br><input checked="" type="radio"/> Caucasian<br><input type="radio"/> Native American<br><input type="radio"/> Hispanic<br><input type="radio"/> Other |
|---|---|

Please List (In Order Of Preference) The Boards/Commissions On Which You Would Be Willing To Serve.

1. Appalachian Regional Healthcare Hospital Board
2. \_\_\_\_\_
3. \_\_\_\_\_



Volunteer Application  
Watauga County Boards And Commissions  
(Continued)

Please list any work, volunteer, and/or other experience you would like to have considered in the review of your application.

Work  
Experience:

Volunteer  
Experience:

Other  
Experience:

Other  
Comments:

Signature: \_\_\_\_\_

Date: 1/4/16

# Michaele Haas

---

PO Box 3384, Boone, NC 28607  
 Home: 828-264-8799 • Cell: 828-773-6400  
 michaelehaas@charter.net

---

## SUMMARY

My passion for investing in others and desire to serve has encouraged me to seek ways to better provide for my community. These interests serve as a foundation for my readiness to serve on the Appalachian Regional Healthcare Hospital Board.

---

## WORK EXPERIENCE

**Substitute Teacher**, 08/2006 to Current  
**Watauga County Schools** — Boone, NC

**Vocalist**, 10/1987 to Current  
**Nightlife Band** — Boone, NC

**Marketing Director**, 06/1986 to 12/1993  
**The Hastings Company** — Boone, NC

Created, implemented, and tracked local restaurant marketing strategies for four restaurants. Coordinated/managed/ordered/ all national and regional advertising merchandise and POP (Point of Purchase) materials for all four restaurants.

Responsible for building and maintaining an in-depth community involvement presence through working with the Chamber of Commerce, local schools and colleges, and non-profit clubs and organizations.

---

## OTHER WORK EXPERIENCE

### **Vice President, Southern Star Management Group**

My husband and I became Hardee's Franchisees with the purchase of three of our own restaurants in 2007. We have grown this business to nine stores and are currently building our tenth. While I am not involved in the day-to-day operations, I am involved in major decision making and serve as a springboard and consultant to my husband in the areas of hiring and retaining employees, controlling costs, advertising and local restaurant marketing, and Insurance/ Health Care issues.

We also own and manage nine rental properties in Watauga County.

---

## VOLUNTEER ACTIVITIES

Youth Leader, BUMC, 2006- Present

Singing on various Praise Teams, BUMC, 2002- Present

Chairman, BUMC Graphics Identity Team, 2014-2015

PTA/PTO Member, Hardin Park, 1991-2015

Co- Chair, Hardin Park Big Trucks Project, 2011-2013, 2015

Member, BUMC Visioning Committee, 2013-2014

Vice President, Hardin Park PTO, 2010-2012

Member, Boone Service League, 1992-2009  
 (Served in many leadership positions including:  
 President, 1998-1999; Vice President; and Chairman of many  
 fund-raising and community service projects.)  
 Children's Choir Director, BUMC, 1994-2004

---

### ACCOMPLISHMENTS

---

#### **Wife and Mother of Four Children**

I consider it a blessing (and my biggest accomplishment) to have been granted the opportunity to stay home, be available for, and help raise four children. Our youngest is in High School which allows me the time and flexibility needed to serve on the Board at this time.

#### **Member, BUMC Crossroads Visioning/Steering Team**

Helped turn the dream of starting a new, casual, praise and worship service into a reality. The Crossroads service began in August 2008, and continues to grow and thrive!

#### **Co-Authored "MeeMa's Memory Quilt"**

"MeeMa's Memory Quilt" is a children's book that was sponsored by the Boone Service League commemorating Watauga County's Sesquicentennial. In 2001, a check from the book's proceeds was presented to WMC's Seby B. Jones Regional Cancer Center.

#### **Wrote and recorded a music CD, "Long Time Coming."**

---

### EDUCATION

---

**Bachelor of Science:** Communications, 1986  
**Appalachian State University** — Boone, NC, USA

Minor in Marketing and Management  
 Charter Member of Alpha Epsilon Rho

**AMENDED AND RESTATED BYLAWS**  
**OF**  
**WATAUGA MEDICAL CENTER, INC.**

**October 2006**

**As Amended Effective As Of March 22, 2012**

**TABLE OF CONTENTS**

	<b>PAGE</b>
DEFINITIONS.....	1
ARTICLE I NAME AND LOCATION .....	1
ARTICLE II PURPOSE AND GOALS .....	2
Section 1. General.....	2
Section 2. Specific .....	2
ARTICLE III MEMBERSHIP.....	2
ARTICLE IV FISCAL YEAR.....	2
ARTICLE V BOARD OF TRUSTEES.....	2
Section 1. Name.....	2
Section 2. Number, Composition, Term, and Appointment .....	2
Section 2.1. Composition.....	3
Section 2.2. Nomination .....	3
Section 2.3. Term.....	4
Section 2.4. Qualifications.....	4
Section 2.5. Honorary Trustees.....	4
Section 3. Powers.....	5
Section 4. Vacancies .....	5
Section 5. Resignation and Removal .....	5
Section 5.1. Resignation .....	5
Section 5.2. Removal.....	5
Section 6. Conflicts of Interest.....	6
Section 6.1. Definitions.....	6
Section 6.2. Procedures.....	6
Section 6.3. Periodic Reviews .....	8
Section 6.4. Conflicts Committee .....	9
Section 7. Indemnification.....	9
Section 7.1. Indemnification Under N.C. Gen. Stat. § 55A-8-51 .....	9
Section 7.2. Indemnification Under N.C. Gen. Stat. § 55A-8-52 .....	10
Section 7.3. Advances Under N.C. Gen. Stat. § 55A-8-53.....	10

Section 7.4. Court-Ordered Indemnification Under N.C. Gen. Stat. § 55A-8-54 .....	10
Section 7.5. Determination and Authorization of Indemnification Under N.C. Gen Stat. § 55A-8-55.....	11
Section 7.6. Indemnification of Officers, Employees, and Agents Under N.C. Gen. Stat. § 55A-8-56.....	12
Section 7.7. Immunity from Civil Liability .....	12
ARTICLE VI MEETINGS .....	12
Section 1. Regular Meetings .....	12
Section 2. Special Meetings.....	12
Section 3. Notice.....	12
Section 4. Waiver of Notice.....	12
Section 5. Quorum .....	13
Section 6. Procedure .....	13
Section 7. Voting .....	13
Section 8. Manner of Action.....	13
Section 10. Attendance .....	14
Section 11. Open Meetings.....	14
ARTICLE VII OFFICERS OF THE BOARD OF TRUSTEES.....	14
Section 1. Officers and Election .....	14
Section 2. Duties of Chairman .....	14
Section 3. Duties of Vice Chairman .....	14
Section 4. Vacancies .....	14
Section 5. Resignation and Removal .....	15
Section 5.1. Resignation .....	15
Section 5.2. Removal.....	15
ARTICLE VIII COMMITTEES OF THE BOARD OF TRUSTEES.....	15
Section 1. Standing Committees.....	15
Section 2. Special Committees .....	15
Section 2.1. Creation.....	15
Section 2.2. Special Committees with Medical Staff Members .....	16
Section 2.3. Special Committees with Citizens .....	16
Section 2.4. Dissolution.....	16

- Section 3. Powers and Reporting ..... 16
  - Section 3.1. General ..... 16
  - Section 3.2. Minutes and Report of Action..... 17
  - Section 3.3. Limitation..... 17
- Section 4. Meetings..... 17
- Section 5. Notice ..... 17
- Section 6. Waiver of Notice..... 17
- Section 7. Quorum ..... 18
- Section 8. Manner of Action ..... 18
- Section 9. Term..... 18
- Section 10. Vacancies ..... 18
- Section 11. Resignation and Removal ..... 18
  - Section 11.1. Resignation ..... 18
  - Section 11.2. Removal ..... 18
- Section 12. Executive Committee..... 19
- Section 13. Finance and Audit Committee ..... 19
- Section 14. Nominating Committee..... 19
- Section 15. Joint Conference Committee..... 20
- Section 16. Corporate Compliance Oversight Committee..... 20
- ARTICLE IX OFFICERS OF THE CORPORATION ..... 20
  - Section 1. Officers and Appointment..... 20
  - Section 2. Duties of Chief Executive Officer ..... 21
    - Section 2.1 Duties of the Chief Executive Officer ..... 21
    - Section 2.2 Duties of the President..... 21
  - Section 3. Duties of Vice Presidents..... 23
  - Section 4. Duties of Secretary..... 23
  - Section 5. Duties of Assistant Secretaries..... 23
  - Section 6. Duties of Treasurer ..... 23
- ARTICLE X MEDICAL STAFF..... 24
  - Section 1. Organization..... 24
  - Section 2. Medical Staff Appointment and Clinical Privileges ..... 24
    - Section 2.1. Delegation to the Medical Staff ..... 24
    - Section 2.2. Action by the Board of Trustees ..... 24

Section 2.3. Criteria for Action by the Board of Trustees .....	25
Section 2.4. Terms and Conditions of Medical Staff Appointment Status and Clinical Privileges .....	25
Section 2.5. Procedure .....	26
Section 3. Hearing and Appeal Procedures.....	26
ARTICLE XI ADOPTION AND AMENDMENT PROCESS.....	26
Section 1. Delegation to the Medical Staff.....	26
Section 2. Favorable Action by the Board of Trustees .....	26
Section 3. Notice of Special Concerns.....	27
Section 4. Action by the Board of Trustees Following Medical Staff Response .....	27
Section 5. Action by the Board of Trustees .....	27
Section 6. Effect of Action by the Board of Trustees .....	27
Section 6.1. Medical Staff Recommendation Accepted .....	27
Section 6.2. New Position Communicated .....	28
Section 6.3. Delegation Rescinded .....	28
ARTICLE XII OPERATIONS .....	28
Section 1. Inurement and Dissolution.....	28
Section 2. Permitted Activities .....	28
ARTICLE XIII AUXILIARY ORGANIZATIONS.....	29
ARTICLE XIV RELIGIOUS MINISTRATIONS .....	29
ARTICLE XV SEAL.....	29
ARTICLE XVI AMENDMENTS .....	29
ARTICLE XVII GENDER.....	30



## **AMENDED AND RESTATED BYLAWS OF WATAUGA MEDICAL CENTER, INC.**

### **DEFINITIONS**

1. Corporation means Watauga Medical Center.
2. Board of Trustees means the governing body of the Corporation.
3. Bylaws means these Amended and Restated Bylaws.
4. Trustee means a member of the Board of Trustees duly appointed by the County Commissioners of Watauga County.
5. Standing Committee of the Board of Trustees means a body authorized by these Bylaws whose members are appointed by the Chairman of the Board of Trustees and which is authorized to exercise a designated portion of the authority of the Board of Trustees.
6. *Ex officio* means service as a member of a body by virtue of an office or position held and, unless otherwise expressly provided, means with voting rights.
7. Medical Staff means that component of the Corporation's chart of organization that stands for all practitioners who are appointed and are privileged to attend patients, or to provide other diagnostic, therapeutic, teaching, or research services in Watauga Medical Center.
8. Medical Staff appointment status or appointment status means all matters related to Medical Staff appointments and reappointments, to department and other clinical unit affiliations, and to Medical Staff category assignments.
9. Clinical privileges or privileges means the permission granted to a practitioner to provide those diagnostic, therapeutic, medical, dental, or surgical services, specifically delineated to him.
10. Practitioner means, unless otherwise limited, any licensed health care professional applying for or exercising clinical privileges in Watauga Medical Center.

### **ARTICLE I**

#### **NAME AND LOCATION**

The name of the corporation shall be Watauga Medical Center, Inc. (the "Corporation" or "Watauga Medical Center") and the principal office thereof shall be located in the Town of Boone, County of Watauga, State of North Carolina. The Corporation shall have and continuously maintain in this State a registered office and a registered agent whose office shall

be identical with the registered office, and may have such other offices as the Board of Trustees of the Corporation may determine from time to time.

## **ARTICLE II**

### **PURPOSE AND GOALS**

Section 1. General. The Corporation is organized for charitable, scientific, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, or any corresponding provisions of any subsequent federal tax laws, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under said section.

Section 2. Specific. The specific purposes of the Corporation shall be: (a) to establish, support, manage, and furnish facilities, personnel, and services to provide diagnosis, medical, surgical, and hospital care, extended care, outpatient care, home care, and other hospital and medically related services without regard to race, creed, color, sex, or national origin; (b) to carry on such activities related to the promotion of health, which, in the opinion of the Board of Trustees, may be justified by the facilities, personnel, funds, or other requirements that are or can be made available; and (c) to engage in any and all activities consistent with or in furtherance of the above purposes.

## **ARTICLE III**

### **MEMBERSHIP**

The sole member of the Corporation shall be Appalachian Regional Healthcare System, Inc., which shall exercise all rights of membership according to applicable North Carolina law.

## **ARTICLE IV**

### **FISCAL YEAR**

The fiscal year of the Corporation shall begin on October 1 and end on September 30.

## **ARTICLE V**

### **BOARD OF TRUSTEES**

Section 1. Name. The governing body of the Corporation shall be the Board of Trustees of Watauga Medical Center, Inc. (the "Board of Trustees").

Section 2. Composition, Nomination and Election, Term, and Qualifications of Members of the Board of Trustees.

Section 2.1. Composition. The Board of Trustees shall consist of ten (10) members. Nine (9) of the Trustees shall be elected through the nominating procedure set forth below. One (1) of the nine (9) Trustees shall be an active member of the Medical Staff of Watauga Medical Center. The remaining Trustee shall be one (1) of the County Commissioners of Watauga County and selected from time to time by the County Commissioners of Watauga County.

Section 2.2. Nomination.

(a) On or before August 1 of each year, a Nominating Committee shall be appointed by the Chairman of the Board of Trustees to nominate one (1) qualified Watauga County citizen for each vacancy which may occur on the Board of Trustees. The committee shall make its report to the Board of Trustees at its October meeting and at that time the floor will be open for other nominations. The Board of Trustees shall then select one (1) nominee for each vacancy by a majority vote of the Board of Trustees. The list of nominees shall be presented to the County Commissioners of Watauga County by the first of December of each year, from which they will elect the number of Trustees for the total number of vacancies to be filled. In the event that a nominee is not elected by the County Commissioners of Watauga County, then the nomination process set forth above shall be repeated thereafter until a nominee is elected.

(b) The County Commissioners of Watauga County agree that in the future, if circumstances indicate the appropriateness of such action due to the regional expansion of Watauga Medical Center's operations, the County Commissioners of Watauga County shall consider expanding the number of non-County Commissioners Trustees appointed to the Board of Trustees, which is currently nine (9), in order to allow the appointment of residents of neighboring counties other than Watauga County, to also serve as members of the Board of Trustees; provided that: (i) appointment procedures currently in effect for the remaining non-County Commissioners Trustees are followed; (ii) a majority of the Board of Trustees always consists of residents of Watauga County, North Carolina; and (iii) at no time shall more than two (2) non-county resident Trustees serve as members of the Board of Trustees.

(c) Election of members of the Board of Trustees by the County Commissioners of Watauga County as provided in this Section 2.2 shall constitute election of the same individuals as members of the Board of Trustees of Appalachian Regional Healthcare System, Inc.

(d) Section 2.2 of Article V of these Bylaws cannot be altered, amended, or deleted except by a two-thirds ( $\frac{2}{3}$ ) majority vote of the Board of Trustees present at a properly noticed meeting and a majority vote of the County Commissioners of Watauga County at a properly noticed meeting.

Section 2.3. Term. All members of the Board of Trustees at the date of the adoption of these Bylaws shall continue in office until the expiration of their present term of office and until their successors are elected and qualified. All members elected to the Board of Trustees after the date of adoption of these Bylaws shall be elected for a three (3) year term in such manner that one-third ( $\frac{1}{3}$ ) of the Board shall be completing two (2) years of their term, one-third ( $\frac{1}{3}$ ) shall be completing three (3) years of their term, and one-third ( $\frac{1}{3}$ ) shall be elected for a new term of three (3) years. Trustees shall be eligible to serve four (4) successive terms of three (3) years each, subject to the provisions of Article V, Section 5 of these Bylaws, such term limitation to be applicable only to Trustees elected after the date of adoption of these Bylaws, October 26, 2006. Each Trustee shall continue to serve until his successor is elected and qualified.

Section 2.4. Qualifications. Board members shall be chosen for their ability to contribute to and support the objectives of Watauga Medical Center. Members should be chosen from as wide a cross-section of the community as feasible within the limits of size, to include, but not limited to, criteria such as socio-economic levels, geographic area, occupational category, identifiable ethnic groups, and other factors as determined by the Board of Trustees. Each member should possess the qualities of honesty, integrity, a sense of justice, and a sound moral character. Membership on the Board of Trustees should reflect a breadth of diversity that is in keeping with the broadened role of Watauga Medical Center in the community.

Section 2.5. Honorary Trustees. The Board of Trustees may from time to time elect certain individuals to be Honorary Trustees in recognition of distinguished achievement. Honorary Trustees may attend meetings of the Board of Trustees on

invitation by the Board of Trustees, but shall not vote or be counted towards a quorum, nor shall they have any other rights associated with Board of Trustees membership. Honorary Trustees shall be appointed for a three (3) year term and may be reappointed from time to time.

Section 3. Powers. Except as otherwise provided by law, by the Articles of Incorporation, or by these Bylaws, the Board of Trustees shall have and exercise full power and authority to do all things deemed necessary and expedient in the governance, management, and control of the business and affairs of the Corporation, including, but not limited to, establishing policies to guide the operation of Watauga Medical Center and determining the scope of services of Watauga Medical Center. Provided, however, that all new contracts for services, acquisitions of property, or the sale of property valued at \$100,000 or greater, and construction of \$100,000 or greater by the Corporation requires approval by the Board of Trustees of Appalachian Regional Healthcare System, Inc. Equipment purchases or leases by the Corporation valued at greater than \$250,000 also require approval by the Board of Trustees of Appalachian Regional Healthcare System, Inc.

Section 4. Vacancies. Vacancies occurring on the Board of Trustees, including those by resignation or removal, and any vacancy created by an increase in the number of Trustees, shall be filled using the method as described in Article V, Section 2.2 hereof. A Trustee elected to fill a vacancy shall hold office for the remainder of the original Trustee's term.

Section 5. Resignation and Removal.

Section 5.1. Resignation. Any Trustee may resign at any time by giving written notice to the Chairman of the Board of Trustees. Such resignation, which may or may not be made contingent upon formal acceptance, shall take effect upon the date of receipt or at any later time specified in it.

Section 5.2. Removal. A Trustee may be removed from office, with or without cause, by a two-thirds ( $\frac{2}{3}$ ) majority vote of the entire Board of Trustees recommending such removal to the County Commissioners of Watauga County. If the County Commissioners of Watauga County by a majority vote agree with such recommendation, the Trustee shall be removed effective as of the date of the vote by the County Commissioners of Watauga County. This is the only method by which a Trustee may be removed.

Section 6. Conflicts of Interest.

Section 6.1. Definitions. For purposes of this section, the following definitions and rules of construction shall apply:

(a) “Interested Person” shall mean a Trustee, principal officer, or member of a committee of the Board of Trustees, who has a direct or indirect Financial Interest.

(b) A “Financial Interest” exists if an Interested Person has, directly or indirectly, through business, investment, or family:

(i) An ownership or investment interest in any entity with which the Corporation has entered into a transaction or arrangement;

(ii) A compensation arrangement with the Corporation or with any entity or individual with which the Corporation has entered into a transaction or arrangement; or

(iii) A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation is negotiating a transaction or arrangement.

(c) Compensation includes direct and indirect remuneration and gifts or favors which are substantial in nature.

(d) An Interested Person who has a Financial Interest in one (1) or more parent, sister, or subsidiary business entities of the Corporation shall be deemed to have a Financial Interest in the Corporation.

Section 6.2. Procedures.

(a) The Corporation shall cause all Interested Persons to disclose any Financial Interests and all material facts relating thereto.

(b) The Corporation shall adopt procedures for determining whether the Financial Interest of an Interested Person may constitute or result in a conflict of interest. No Interested Person shall attend a meeting at which such person’s Financial Interest is discussed, nor shall any Interested Person be entitled to vote on any action relating to such person’s Financial Interest.

(c) In the event the Corporation determines that a conflict of interest exists, it shall take such actions as it deems necessary to resolve the conflict of interest, including:

(i) Prohibiting the Interested Person from attending any meeting at which is discussed the transaction or arrangement that results in the conflict of interest;

(ii) Prohibiting the Interested Person from voting on any matter relating to the conflict of interest;

(iii) Appointing, if appropriate, a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement;

(iv) Determining, by a majority vote of the disinterested Trustees present at a meeting, whether the transaction or arrangement is in the Corporation's best interest and for its own benefit; is fair and reasonable to the Corporation; and, after exercising due diligence, whether the Corporation can enter into a more advantageous transaction or arrangement with reasonable efforts under the circumstances; and

(v) Taking appropriate disciplinary action with respect to an Interested Person who violates the Corporation's conflicts of interest policy in order to protect the Corporation's best interests.

(d) The minutes of meetings of the Board of Trustees and all committees of the Board of Trustees shall include:

(i) The names of all persons who have disclosed Financial Interests, the nature of the Financial Interest disclosed, and the Board of Trustees' determination of whether a conflict of interest existed; and

(ii) The names of the persons who were present at the meeting for discussions and votes relating to the transaction or arrangement, the content of these discussions (including any alternatives to the proposed transaction or arrangement), and a record of the vote.

(e) The Corporation shall distribute this conflicts of interest policy to all Interested Persons as defined herein. The Corporation shall obtain annually a signed statement from each such person certifying that the person:

- (i) Received a copy of the conflicts of interest policy;
- (ii) Has read and understands the policy;
- (iii) Agrees to comply with the policy;
- (iv) Understands that the policy applies to all committees and subcommittees acting with the authority of the Board of Trustees; and
- (v) Understands that the Corporation is a charitable organization and that in order to maintain its tax-exempt status, it must continuously engage primarily in activities which accomplish one (1) or more of its tax-exempt purposes.

(f) The following restrictions shall apply to any committee which sets compensation for officers, Trustees, or employees of the Corporation, or, if no such committee exists, to the Board of Trustees:

- (i) No practicing physician who receives, directly or indirectly, compensation from the Corporation for services as an employee or independent contractor shall serve on or participate in the actions of such committee; and
- (ii) No member of such committee who has a conflict of interest in the Corporation and who receives compensation from the Corporation shall, directly or indirectly, vote on any matter relating to that member's compensation.

Section 6.3. Periodic Reviews. The Corporation shall conduct periodic reviews of its activities to ensure that it is operating in a manner consistent with accomplishing its charitable purposes and that its operations do not result in private inurement or impermissible benefit to private interests. In conducting such reviews, the Corporation shall evaluate the following:

- (a) Whether the Corporation's compensation arrangements and benefits are reasonable and the result of arm's length negotiations;



(b) Whether acquisitions of physician practices, if any, and other provider services result in private inurement or impermissible private benefit;

(c) Whether partnership and joint venture arrangements and arrangements with health maintenance organizations, management service organizations, and physician hospital organizations conform to written policies, are properly recorded, reflect reasonable payments for goods or services, further charitable purposes, and do not result in private inurement or impermissible private benefit; and

(d) Whether agreements to provide health care services and agreements with other health care providers, employees, and third party payors serve charitable purposes.

Section 6.4. Conflicts Committee. The Corporate Compliance Oversight Committee shall act as a “conflicts committee” to carry out the requirements of this section and to adopt and apply such other procedures as it deems necessary therefor.

Section 7. Indemnification.

Section 7.1. Indemnification Under N.C. Gen. Stat. § 55A-8-51.

(a) Except as provided in subsection (d) of this Section 7.1, the Corporation shall indemnify an individual made a party to a proceeding because the individual is or was a Trustee against liability incurred in the proceeding if the individual (i) conducted himself in good faith; (ii) reasonably believed (y) in the case of conduct in his official capacity with the Corporation, that his conduct was in its best interests, and (z) in all other cases, that his conduct was at least not opposed to its best interests; and (iii) in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful.

(b) A Trustee’s conduct with respect to an employee benefit plan for a purpose the Trustee reasonably believed to be in the interests of the participants in, and beneficiaries of, the plan is conduct that satisfies the requirement of subsection (a) above.

(c) The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of no contest or its equivalent is not of itself

determinative that the Trustee did not meet the standard of conduct set forth in subsection (a) above.

(d) The Corporation shall not indemnify a Trustee in connection with the proceeding by or in right of the Corporation in which the Trustee is adjudged liable to the Corporation or in connection with any other proceeding charging improper personal benefit to the Trustee, whether or not involving action in his official capacity, in which the Trustee was adjudged liable on the basis that personal benefit was improperly received by the Trustee.

(e) Indemnification hereunder in connection with a proceeding by or in the right of the Corporation that is concluded without a final adjudication on the issue of liability is limited to reasonable expenses incurred in connection with the proceeding.

(f) The authorization, approval, or favorable recommendation by the Board of Trustees of indemnification as authorized hereunder shall not be deemed an act or corporate transaction in which a Trustee has a conflict of interest and no such indemnification shall be void or voidable on such ground.

Section 7.2. Indemnification Under N.C. Gen. Stat. § 55A-8-52. The Corporation shall indemnify a Trustee who is wholly successful on the merits or otherwise in the defense of any proceeding to which the Trustee was a party because he is or was a Trustee of the Corporation, against reasonable expenses actually incurred by the Trustee in connection with the proceeding.

Section 7.3. Advances Under N.C. Gen. Stat. § 55A-8-53. Expenses incurred by a Trustee in defending a proceeding shall be paid by the Corporation in advance of the final disposition of the proceeding upon receipt of an undertaking by or on behalf of the Trustee to repay such amount, unless it is ultimately determined that the Trustee is entitled to be indemnified by the Corporation against such expenses.

Section 7.4. Court-Ordered Indemnification Under N.C. Gen. Stat. § 55A-8-54. A Trustee of the Corporation who is a party to a proceeding may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction. The court may order indemnification if it determines that (a) the Trustee is entitled to mandatory indemnification under N.C. Gen. Stat. § 55A-8-52, in which case

the Corporation also shall pay the Trustee's reasonable expenses incurred to obtain court-ordered indemnification, or (b) the Trustee is fairly and reasonably entitled to indemnification in whole or in part in view of all the relevant circumstances, whether or not the Trustee met the standard of conduct set forth in N.C. Gen. Stat. § 55A-8-51 or was adjudged liable as described in N.C. Gen. Stat. § 55A-8-51(d), but if the Trustee is adjudged so liable, such indemnification is limited to reasonable expenses incurred.

Section 7.5. Determination and Authorization of Indemnification Under N.C. Gen Stat. § 55A-8-55.

(a) The Corporation shall not indemnify a Trustee under N.C. Gen. Stat. § 55A-8-51 unless authorized in the specific case after a determination has been made that indemnification of the Trustee is permissible in the circumstances because the Trustee met the standard of conduct set forth in N.C. Gen. Stat. § 55A-8-51. The determination shall be made by the Board of Trustees by a majority vote of a quorum consisting of Trustees not at the time parties to the proceeding. If such a quorum cannot be obtained, such determination thereupon shall be made by a majority vote of a committee duly designated by the Board of Trustees (in which designation Trustees who are parties may participate), consisting solely of two (2) or more Trustees not at the time parties to the proceeding. If the foregoing two (2) methods of determination cannot be made, then such determination shall be made by special legal counsel selected by the Board of Trustees or a committee in the manner prescribed herein, or if a quorum of the Board of Trustees cannot be obtained and a committee cannot be designated, then selected by a majority vote of the entire Board of Trustees in which selection Trustees who are parties may participate.

(b) Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination is made by special legal counsel, authorization of indemnification and evaluation as to reasonableness of expenses shall be made by those entitled to select counsel hereunder.

Section 7.6. Indemnification of Officers, Employees, and Agents Under N.C. Gen. Stat. § 55A-8-56. An officer, employee, or agent of the Corporation is entitled to indemnification under this subsection to the same extent as a Trustee. The Corporation shall advance expenses to an officer, employee, or agent of the Corporation to the same extent as to a Trustee.

Section 7.7. Immunity from Civil Liability. Trustees and officers of the Corporation shall be immune from civil liability for monetary damages arising out of their service as such to the fullest extent authorized by law, including but not limited to that immunity authorized by N.C. Gen. Stat. §§ 1-539.10, 55A-2-02(b)(4), and 55A-8-60, or any successor provisions of law.

## **ARTICLE VI**

### **MEETINGS**

Section 1. Regular Meetings. The Board of Trustees shall hold regular meetings not less than four (4) times per year, in addition to the Annual Meeting, at a designated time and place. The regular meeting in January shall be known as the Annual Meeting, at which officers for the ensuing year shall be elected. The Executive Committee shall meet on the same days as regular meetings of the full Board of Trustees.

Section 2. Special Meetings. Special meetings of the Board of Trustees may be held at the call of the Chairman, or, in his absence, at the call of the Vice Chairman, or at the call of any three (3) Trustees. The business to be transacted at any special meeting shall be limited to those items of business set forth in the notice of the meeting.

Section 3. Notice. Regular meetings of the Board of Trustees may be held as provided in Article VI, Section 1 herein upon prior notice of the designated time and place of such meeting given by the Corporation. The person or persons calling a special meeting of the Board of Trustees shall, at least two (2) days before the meeting, give notice thereof by mail. Such notice need not specify the purpose for which the meeting is called.

Section 4. Waiver of Notice. Any Trustee may waive notice of any meeting. The attendance by a Trustee at a meeting shall constitute a waiver of notice of such meeting except where a Trustee attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Quorum. A quorum of the Board of Trustees for the transaction of business shall consist of a majority of the members of the Board of Trustees as it is then constituted. In addition to those Trustees who are actually present at a meeting, Trustees shall be deemed as present at such meeting if a telephone or similar communications equipment is used, by means of which all persons participating in the meeting can hear each other at the same time.

Section 6. Procedure. At all meetings of the Board of Trustees, the Chairman, the Vice Chairman, or in their absence, a presiding officer chosen at the meeting shall preside over the transaction of business. The Secretary of the Corporation, or his designee, shall act as secretary and shall prepare a record of all meetings of the Board of Trustees, and maintain the same in the Corporation's principal office.

Section 7. Voting. Each voting Trustee is entitled to one (1) vote on any matter before the Board of Trustees. Voting by proxy is not permitted. A Trustee who is present at a meeting of the Board of Trustees at which action on any matter is taken shall be presumed to have assented to the action taken unless his contrary vote is recorded or his dissent is otherwise entered in the minutes of the meeting, or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Trustee who voted in favor of such action.

Section 8. Manner of Action. Unless otherwise required by law, the Articles of Incorporation, or these Bylaws, the act of a majority of the Trustees present at a meeting at which a quorum is present shall be the act of the Board of Trustees. Any action required or permitted to be taken by the Board of Trustees under any provision of law, the Articles of Incorporation, or these Bylaws, may be taken without a meeting by the individual or collective consent, in writing, setting forth the action so taken, of all of the Trustees. Such written consent(s) shall be filed with the minutes of the Board of Trustees. Such action by written consent shall have the same force and effect as a unanimous vote of the Trustees. Any certificate or other document filed under law relating to actions so taken shall state that the action was taken by unanimous written consent of the Board of Trustees without a meeting and that the Bylaws authorized the Trustees to so act.

Section 9. Attendance. Members of the Board of Trustees shall strive to attend all meetings. In the event that a member of the Board of Trustees accrues absences from three (3) consecutive meetings, the Chairman of the Board of Trustees shall then be authorized to create a special committee of the Board of Trustees to evaluate the status of the offending Trustee and report recommendations thereon to the Board of Trustees.

Section 10. Open Meetings. Meetings of the Board of Trustees shall be conducted in accordance with the provisions of the North Carolina Open Meetings Law as set forth in Article 33C, Chapter 143 of the North Carolina General Statutes, as now written or hereafter amended.

## **ARTICLE VII**

### **OFFICERS OF THE BOARD OF TRUSTEES**

Section 1. Officers and Election. The Board of Trustees shall elect a Chairman and a Vice Chairman for a term of one (1) year, each of whom shall take office at the Annual Meeting or until their successors have been appointed. The officers of the Board of Trustees shall be eligible to serve three (3) full terms of one (1) year each. An officer of the Board of Trustees cannot be reelected after serving three (3) full terms of one (1) year each until one (1) year next following the expiration of the officer's last full one (1) year term. One (1) person may hold two (2) or more offices, unless otherwise prohibited by law.

Section 2. Duties of Chairman. The Chairman of the Board of Trustees shall exercise general supervision over all of the affairs of the Corporation, he shall preside at all meetings of the Trustees, appoint the Executive Committee, the Finance and Audit Committee, the Nominating Committee, the Joint Conference Committee, the Corporate Compliance Oversight Committee, and such other committees as the Board of Trustees may authorize. The Chairman shall be an *ex officio* member, without privilege to vote, of all committees of the Board of Trustees in which he is not a voting member as provided in these Bylaws. The term of such appointments shall be consistent with Article VIII, Section 9, herein.

Section 3. Duties of Vice Chairman. The Vice Chairman of the Board of Trustees shall perform the duties of the Chairman in his absence, or in the event of his resignation, death, or disability.

Section 4. Vacancies. Vacancies in the offices of Chairman and Vice Chairman of the Board of Trustees shall be filled by the act of a majority of the Trustees present at a meeting at which a quorum is present.

Section 5. Resignation and Removal.

Section 5.1. Resignation. The Chairman of the Board of Trustees may resign at any time by giving written notice thereof to the Vice Chairman, who shall assume the duties of the Chairman upon the effective date of his resignation, pending the appointment of a new Chairman by the Board of Trustees to serve the remainder of the unexpired term of the Chairman. The Vice Chairman of the Board of Trustees may resign at any time by giving written notice thereof to the Chairman. At the meeting of the Board of Trustees next following the effective date of the resignation, the Board of Trustees shall appoint a new Vice Chairman of the Board of Trustees to serve the remainder of the unexpired term of the Vice Chairman. Such resignations, which may or may not be made contingent upon formal acceptance, take effect upon the date of receipt or at any later time specified in it.

Section 5.2. Removal. The Chairman and/or Vice Chairman of the Board of Trustees may be removed from office by a vote of at least two-thirds ( $\frac{2}{3}$ ) of the members of the entire Board of Trustees for the reasons and according to the procedure specified for the removal of a Trustee in Article V, Section 5.2, herein.

**ARTICLE VIII**

**COMMITTEES OF THE BOARD OF TRUSTEES**

Section 1. Standing Committees. The Corporation shall have the following standing committees: Executive Committee, Finance and Audit Committee, Nominating Committee, Joint Conference Committee, and Corporate Compliance Oversight Committee.

Section 2. Special Committees.

Section 2.1. Creation. The Board of Trustees may authorize, and the Chairman of the Board of Trustees may appoint, such special committees as are necessary and proper to carry on the affairs of the Corporation. In the event that the Board of Trustees authorizes the creation of a special committee, the resolution of creation shall authorize the Chairman of the Board of Trustees to appoint a chairman and the members of such committee, as well as to designate the authority of the Board of Trustees which the committee shall exercise, and any limitations thereon, as well as the functions that the special committee shall discharge.

Section 2.2. Special Committees with Medical Staff Members. In matters relative to the Corporation and the Medical Staff of Watauga Medical Center, the Chairman of the Board of Trustees may establish a special committee composed of both Trustees and Medical Staff members. The Chairman shall designate the number to serve on the committee which shall be composed of an equal number of Trustees and Medical Staff members, shall appoint the Trustees, shall designate any *ex officio* member from the administrative staff, and shall specify the function and purpose of the committee, subject to the approval of the Board of Trustees. The Chief of the Medical Staff shall appoint the members of the special committee from the Medical Staff of Watauga Medical Center.

Section 2.3. Special Committees with Citizens. In matters relative to the Corporation and the citizens of Watauga County, the Chairman of the Board of Trustees may establish a special committee composed of both Trustees and citizens of Watauga County, selected at large. The Chairman shall designate the number to serve on the committee, appoint the members of the committee, and specify the function and purpose of the committee, subject to the approval of the Board of Trustees.

Section 2.4. Dissolution. Upon acceptance by the Board of Trustees of the final report of any special committee, the committee shall be dissolved.

Section 3. Powers and Reporting.

Section 3.1. General. Each committee of the Board of Trustees shall have and exercise the powers and authority of the Board of Trustees granted to it in the resolution creating it or as provided in these Bylaws. No committee shall have authority to act on behalf of the Board of Trustees as to the following matters:

- (a) The dissolution, merger, or consolidation of the Corporation, the amendment of the Articles of Incorporation of the Corporation, or the sale, lease, or exchange of all or substantially all of the property of the Corporation;
- (b) Filling of the vacancies in the Board of Trustees;
- (c) The amendment or repeal of the Bylaws, or the adoption of new Bylaws;
- (d) The amendment or repeal of any resolution of the Board of Trustees which by its terms shall not be so amendable or repealable.



Section 3.2. Minutes and Report of Action. Each committee of the Board of Trustees shall keep minutes of its proceedings and report its actions to the Board of Trustees. Actions of the committees of the Board of Trustees are effective when approved by the Board of Trustees except in either of the following circumstances, when actions of committees can be made effective when taken:

(a) By the Executive Committee when it exercises the power and authority of the Board of Trustees as provided in these Bylaws; or

(b) Where the Board of Trustees may from time-to-time authorize by resolution that a committee take actions on behalf of the Board of Trustees between meetings of the Board of Trustees.

Rescission by the Board of Trustees of any action taken by a committee thereof shall not affect the rights of third parties accruing prior to such rescission.

Section 3.3. Limitation. When the Executive Committee exercises the power and authority of the Board of Trustees or, when pursuant to a Board of Trustees' resolution, a committee takes action on behalf of the Board of Trustees between meetings of the Board of Trustees, such exercise of authority shall not operate to relieve the Board of Trustees or any member thereof of any responsibility or liability imposed upon it or him by law. If action taken is not thereafter formally considered by the Board of Trustees, a Trustee may dissent from such action by filing his written objection with the Secretary with reasonable promptness upon learning of such action.

Section 4. Meetings. Meetings of a committee of the Board of Trustees may be called by the Chairman of the Board of Trustees, the chairman of the committee, the Chief Executive Officer of the Corporation, or any two (2) of the committee's voting members.

Section 5. Notice. The person or person(s) calling a meeting of a committee of the Board of Trustees shall, at least two (2) days before any meeting, give oral or written notice thereof. Such notice need not specify the purpose for which the meeting is called.

Section 6. Waiver of Notice. Any Trustee may waive notice of any meeting of a committee. The attendance by a Trustee at a meeting shall constitute a waiver of notice of such meeting except where a Trustee attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 7. Quorum. A quorum of a committee of the Board of Trustees shall consist of a majority of the members of the committee as it is then constituted.

Section 8. Manner of Action. The act of a majority of the members of a committee of the Board of Trustees present at a meeting at which a quorum is present shall be the act of the committee so meeting. No action taken at a meeting at which less than a quorum was present is valid unless approved in writing by the absent members. Action may be taken without a meeting by a writing setting forth the action so taken signed by each member of the committee entitled to vote thereat. A member of a committee of the Board of Trustees who is present at a meeting of such committee at which action is taken shall be presumed to have assented to the action taken unless his contrary vote is recorded or his dissent is otherwise entered in the minutes of the meeting of the committee, or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof, or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Trustee who voted in favor of such action.

Section 9. Term. Each member of a committee of the Board of Trustees shall hold such office until the next annual election of Trustees, and until his successor as a member of such committee of the Board of Trustees is elected, unless he resigns or is removed from the committee. A member of a committee of the Board of Trustees may succeed himself.

Section 10. Vacancies. A vacancy on any committee of the Board of Trustees may be filled for the remainder of the unexpired term of the committee member by the Chairman of the Board of Trustees.

Section 11. Resignation and Removal.

Section 11.1. Resignation. Any member of a committee of the Board of Trustees may resign at any time by giving written notice to the chairman of the committee. Such resignation, which may or may not be made contingent upon formal acceptance, takes effect upon the date of receipt or at any later time specified in it.

Section 11.2. Removal. Any member of a committee of the Board of Trustees, except an *ex officio* member, may be removed by the Chairman of the Board of Trustees for the reasons specified for the removal of a Trustee in Article V, Section 5.2, herein.

Section 12. Executive Committee. The Executive Committee shall consist of the Chairman of the Board of Trustees, the Vice Chairman of the Board of Trustees, the immediate past Chairman of the Board of Trustees (if still a member of the Board of Trustees), a member chosen from the County Commissioners of Watauga County, and two (2) other Trustees. The Chairman shall appoint the members of the Executive Committee and shall serve as its Chairman. In the absence of a quorum of the entire Board of Trustees, the Executive Committee or a majority thereof shall have full authority to act in all matters relating to Watauga Medical Center business, including, but not limited to all things deemed necessary and expedient in the governance, management, and control of the business and affairs of the Corporation, including matters relating to executive compensation, and shall have and exercise the power and authority of the Board of Trustees to transact all regular business of the Corporation when the Board of Trustees is not in session, except as prohibited in Article V, Section 3 herein. Further, the Executive Committee or a majority thereof shall have full authority to act on behalf of Watauga Medical Center at any called or special meeting. When the Executive Committee exercises the power and authority of the Board of Trustees, such action is subject to ratification by the Board of Trustees.

Section 13. Finance and Audit Committee. The Finance and Audit Committee shall consist of at least three (3) Trustees, and shall be advised by the Treasurer of the Corporation. The Chairman shall appoint the members of the Finance and Audit Committee and shall designate its chairman. The Finance and Audit Committee shall have and exercise general oversight responsibility for the investment of all endowment and other capital funds of the Corporation, for the budget and financial planning of the Corporation, and for the coordination of all programs affecting the fiscal affairs or financial condition of the Corporation.

Section 14. Nominating Committee. The Nominating Committee shall be appointed by the Chairman of the Board of Trustees and shall designate its chairman. The Nominating Committee shall develop and maintain a list of persons qualified to serve as members of the Board of Trustees. It shall have the responsibility to (a) obtain from appropriate sources the names of persons well qualified to serve as Trustees who shall be residents of Watauga County; (b) determine whether persons recommended to the Nominating Committee are willing to be considered for appointment to the Board of Trustees; (c) request that such persons who indicate an interest in serving as a Trustee submit to the Nominating Committee such biographical data in

such form as the Nominating Committee deems appropriate; (d) submit to the Corporation's Board of Trustees for recommendation to the County Commissioners of Watauga County nominations to fill a vacancy or vacancies on the Board of Trustees as required by Article V, Section 2.2 herein; and (e) consider in its deliberations the provisions of these Bylaws concerning qualifications and fitness for office, and concerning composition of the Board of Trustees as required by Article V, Section 2.2 herein.

Section 15. Joint Conference Committee. Should the need arise for discussion of a medical-administrative nature and/or for communication of recommendations or concerns between the Board of Trustees and the Medical Staff, the Chairman of the Board of Trustees may call for a meeting of the Joint Conference Committee. The Joint Conference Committee shall consist of the members of the Medical Staff Executive Committee and the Executive Committee of the Board of Trustees. The Chairman of the Board of Trustees shall serve as Chairman and the Chief Executive Officer shall serve as an *ex officio* voting member.

Section 16. Corporate Compliance Oversight Committee. The Corporate Compliance Oversight Committee shall consist of the Chairmen of the Boards of Trustees of Appalachian Regional Healthcare System, Inc., the Corporation, and Charles A. Cannon, Jr. Memorial Hospital, Incorporated, *ex officio*, regardless of whether such offices are held by the same person; the Chief Executive Officer, *ex officio*; and two (2) other Trustees whom the Chairman of the Board of Trustees shall select, one (1) of whom shall be designated by the Chairman of the Board of Trustees to serve as Chairman of the Corporate Compliance Oversight Committee. The Corporate Compliance Oversight Committee shall have and exercise general oversight responsibility for the Corporation's Corporate Compliance Program, which shall have available continuing legal advice in order to assure that the program is effective in preventing and detecting criminal conduct and in providing the Corporation a structure to ensure continued compliance with applicable statutes and regulations.

## **ARTICLE IX**

### **OFFICERS OF THE CORPORATION**

Section 1. Appointment of Officers. The President and Chief Executive Officer of Appalachian Regional Healthcare System, Inc. shall select and appoint the following officers, all of whom shall serve at the pleasure of the President and Chief Executive Officer of Appalachian

Regional Healthcare System, Inc.: a Chief Executive Officer, a President, Vice President, a Secretary, Assistant Secretaries, and a Treasurer.

Section 2. Duties of Chief Executive Officer. The Chief Executive Officer shall be the officer of the Corporation responsible for the Corporation's overall management, and shall act as the duly authorized representative of the Board of Trustees in all matters except those which the Board of Trustees has formally designated to some other person or group. The Chief Executive Officer shall, with the approval of the Board of Trustees, be responsible for overall strategy; establish the strategic orientation and directives of the Corporation; shall see that such directives are carried out by the other officers of the Corporation; and shall be responsible for the general leadership of the Corporation. The Chief Executive Officer shall sign all documents, financial forms, contracts, agreements, and other obligations authorized to be executed by the Board of Trustees. In addition, the Chief Executive Officer shall prepare an annual budget showing the expected receipts and expenditures of the Corporation as required by the Board of Trustees and shall report to the Board of Trustees at designated intervals upon the work performed by the Corporation and upon its financial condition. The Board of Trustees shall be responsible for the evaluation of the Chief Executive Officer. Upon approval of the Board of Trustees, the office of Chief Executive Officer and the office of President may be held by the same individual.

Section 3. Duties of President. The President of the Corporation shall be the officer of the Corporation responsible for the day-to-day on-site management, operations, and leadership of the Corporation. The President shall see that the policies and directives of the Chief Executive Officer and the Board of Trustees are properly carried out. The President shall be given the specific responsibility for:

- (a) Development and submission to the Board of Trustees for approval a plan of organization of the personnel and others connected with the operation of Watauga Medical Center.
- (b) Selection, employment, control, and discharge of employees and development and maintenance of personnel policies and practices of Watauga Medical Center.
- (c) Maintenance of physical properties in a good state of repair and operating condition.

(d) Supervision of business affairs to ensure that funds are collected and expended to the best possible advantage.

(e) Cooperation with the Medical Staff and with all those concerned with the rendering of professional service to the end that high quality care may be rendered to patients.

(f) Presentation to the Board of Trustees, or its authorized committee, of a periodic report reflecting the professional service and financial activity of Watauga Medical Center and preparation and submission of such special reports as may be required by the Board of Trustees.

(g) Attendance of all meetings of the Board of Trustees and committees thereof.

(h) To grant temporary privileges to Medical Staff applicants in accordance with the provisions of the Medical Staff Bylaws.

(i) To suspend all or any portion of the clinical privileges of a Medical Staff appointee or other individual whenever the President believes that failure to take such action would result in imminent danger to the health and/or safety of any individual or to the orderly operation of Watauga Medical Center. Such precautionary suspension shall be deemed an interim precautionary step in the professional review activity related to the ultimate professional review action that will be taken with respect to the suspended individual but is not a complete professional review action in and of itself. It shall not imply any finding of responsibility for the situation that caused the suspension.

(j) Performance of other duties that may be necessary in the best interests of Watauga Medical Center.

In the absence of the Chief Executive Officer, or in the event of his death, inability, or refusal to act, the President, unless otherwise determined by the Board of Trustees, shall perform the duties of the Chief Executive Officer, and when so acting shall have all the powers of, and be subject to, all the restrictions upon the Chief Executive Officer. The President also shall have such other powers and perform such other duties as are provided in these Bylaws and as the Board of Trustees may from time to time determine. The Chief Executive Officer and the Board of Trustees shall be responsible for the evaluation of the President. Upon approval of the Board

of Trustees, the office of Chief Executive Officer and the office of President may be held by the same individual.

Section 4. Duties of Vice Presidents. The Vice Presidents shall be subject to the supervision and control of the President of the Corporation, and shall have authority as may be delegated to them by the President and Chief Executive Officer of Appalachian Regional Healthcare System, Inc.

Section 5. Duties of Secretary. The Secretary of the Corporation shall have custody of the seal of the Corporation and shall affix the same attested to by his signature to all deeds, notes, and obligating instruments to be under the seal of the Board of Trustees. The Secretary shall sign with the Chief Executive Officer in the name of the Board of Trustees all contracts, agreements, and other obligations authorized to be executed by the Board of Trustees. The Secretary shall keep an accurate list of the members of the Board of Trustees and of the dates of their respective terms and the expiration thereof. In general, the Secretary of the Corporation shall perform all such acts as may be described by the Board of Trustees and as are usually incident to the office of Secretary of the Corporation.

Section 6. Duties of Assistant Secretaries. In the absence of the Secretary or in the event of his death, inability, or refusal to act, the Assistant Secretaries in the order of their length of service as Assistant Secretary, unless otherwise determined by the Board of Trustees, shall perform the duties of the Secretary and when so acting shall have all the powers of and be subject to all the restrictions upon the Secretary. They shall perform such other duties as may be assigned to them by the Secretary, or by the President and Chief Executive Officer of Appalachian Regional Healthcare System, Inc.

Section 7. Duties of Treasurer. The Treasurer of the Corporation shall be the Chief Financial Officer of the Corporation. The Treasurer may be required by the Board of Trustees to post bond with adequate sureties, the expense of which shall be paid by the Corporation. The Treasurer shall have the authority and responsibility to receive and safely keep all monies and securities of the Corporation; to pay or cause to be paid all lawful indebtedness of the Corporation; to keep or cause to be kept a record of all receipts and expenditures through an approved accounting system and to see that a true and accurate accounting of the financial transactions of the Corporation are made and kept; to present, or cause to be presented to the Board of Trustees at each regular meeting, a written report of operating results of the

Corporation since the last preceding regular meeting of the Board of Trustees; to present, or cause to be presented to the Board of Trustees at its Annual Meeting, an annual report as to the operating results of the Corporation for the preceding fiscal year; to present to the Board of Trustees a recommendation as to a certified public accountant to annually examine and audit the books of the Corporation and its controlled affiliates; and to exercise and perform such other authority and responsibilities as the Board of Trustees may direct from time to time.

## **ARTICLE X**

### **MEDICAL STAFF**

Section 1. Organization. The Board of Trustees has created a Medical Staff component within the Corporation's chart of organization which shall be comprised of all practitioners who have been determined to satisfy the qualifications for membership and have been appointed by the Board of Trustees. Appointment to the Medical Staff of Watauga Medical Center is a prerequisite to the exercise of clinical privileges at Watauga Medical Center, except as may be otherwise specifically provided in the Medical Staff Bylaws.

#### Section 2. Medical Staff Appointment and Clinical Privileges.

Section 2.1. Delegation to the Medical Staff. The Board of Trustees delegates to the Medical Staff of Watauga Medical Center the responsibility and authority to investigate and evaluate matters relating to Medical Staff appointment status, clinical privileges, and corrective action and shall require that the appropriate officers and committees of the Medical Staff of Watauga Medical Center adopt and forward to the Board of Trustees specific written recommendations on these matters with appropriate supporting documentation that will allow it to take informed action.

Section 2.2. Action by the Board of Trustees. Final action on all matters relating to Medical Staff appointment, status, clinical privileges, and corrective action shall be taken by the Board of Trustees after considering the recommendations of the appropriate Medical Staff officers and committees, provided that the Board of Trustees must act in any event if the appropriate Medical Staff officers and committees fail to adopt and submit any such recommendation within the time period set forth in the Medical Staff Bylaws and any of its supporting documents. Such action by the Board of Trustees without a Medical Staff recommendation must be based upon the same kind of



documented investigation and evaluation of current ability, judgment, and character as is required for Medical Staff recommendations.

Section 2.3. Criteria for Action by the Board of Trustees. In acting upon matters of Medical Staff appointment status and in granting and defining the scope of clinical privileges to be exercised by each practitioner, the Board of Trustees shall consider the recommendations of the appropriate Medical Staff officers and committees, the supporting information upon which they are based, and such criteria as have been approved by the Board of Trustees and made known to practitioners through the Medical Staff Bylaws and related manuals or other mechanisms. No aspect of appointment status nor specific clinical privileges shall be limited or denied to a practitioner upon the basis of sex, race, age, creed, color, handicap unrelated to the ability to fulfill professional or Medical Staff duties, or national origin, or upon the basis of any other criterion unrelated to quality or efficient patient care at Watauga Medical Center, to required professional qualifications, or to the Corporation's purposes, needs, capabilities, and economic considerations.

Section 2.4. Terms and Conditions of Medical Staff Appointment Status and Clinical Privileges. The terms and conditions of appointment to the Medical Staff of Watauga Medical Center, and of the exercise of clinical privileges, shall be as specified in the Medical Staff Bylaws or as more specifically defined in the notice of individual appointment, reappointment, or grant of clinical privileges. Each appointee to the Medical Staff shall have appropriate authority and responsibility for the care of his patients subject to limitations contained in these Bylaws and in the Medical Staff Bylaws, rules, and regulations, and subject to any limitations attached to his appointment. Each appointee to the Medical Staff shall, at the time of application for appointment, and at the time of acceptance of appointment and reappointment, agree in writing to be governed by these Bylaws, the Medical Staff Bylaws, rules, and regulations. Further, he shall specifically agree to adhere to those responsibilities required of his Medical Staff category as provided in the Medical Staff Bylaws, and such other duties and responsibilities as shall be assigned to him by the Board of Trustees and appropriate authorities of the Medical Staff. No appointment or reappointment shall take effect until such a statement has been signed by the individual concerned.

Section 2.5. Procedure. The procedure to be followed by the appropriate Medical Staff officers and committees and by the Board of Trustees in acting upon matters of appointment status, clinical privileges, and corrective action shall be as specified in the Medical Staff Bylaws.

Section 3. Hearing and Appeal Procedures. The Board of Trustees shall require that any adverse recommendation made or adverse action taken by the Executive Committee of the Medical Staff, or by the Board of Trustees, with respect to a practitioner's Medical Staff appointment, reappointment, department affiliation, staff category, admitting prerogatives, or clinical privileges, shall, except under circumstances for which specific provision is made in the hearing and appeal procedures of the Medical Staff Bylaws, be accomplished in accordance with the hearing and appeal procedures of the Medical Staff Bylaws then in effect. Such procedures shall assure fair treatment and afford an opportunity for the presentation of all pertinent information. For the purposes of this Section 3, an "adverse recommendation" and an "adverse action" shall be as defined in the Medical Staff Bylaws.

## **ARTICLE XI**

### **ADOPTION AND AMENDMENT PROCESS**

Section 1. Delegation to the Medical Staff. The Board of Trustees holds the Medical Staff responsible for drafting, debating, adopting, and recommending to the Board of Trustees, or its authorized committee, in a timely and good faith manner, such bylaws, rules, regulations, and other organizational protocols, including amendments thereof, as are appropriate for the proper direction and management of the Medical Staff. All such documents and amendments thereto must be consistent with the policies of Watauga Medical Center, as well as all applicable legal and other requirements, and shall not be effective until acted upon favorably in accordance with Article XI, Section 6, herein.

Section 2. Favorable Action by the Board of Trustees. The Board of Trustees shall receive and act upon drafts of bylaws and related documents, and amendments thereto, recommended by the Medical Staff of Watauga Medical Center. The affirmative vote of a majority of the Trustees present at any regular or special meeting shall be deemed the favorable action of the Board of Trustees. Such bylaws, related documents, and amendments shall be effective as of the date such affirmative action is taken or at such later date as the Board of Trustees may specify. Provided, however, that amendments to the bylaws deemed to be

technical modifications or clarifications in the judgment of the Executive Committee of the Medical Staff may be effective upon report to the Board of Trustees but without the necessity of affirmative action by the Board of Trustees.

Section 3. Notice of Special Concerns. Whenever the Board of Trustees believes that the Medical Staff recommendations or existing documents are deficient in one or more respects, it may, by special notice to the Chief of the Medical Staff of Watauga Medical Center, inform the Medical Staff of its concerns, of the reasons therefor, and of the date by which the Medical Staff's response is requested.

Section 4. Action by the Board of Trustees Following Medical Staff Response. If the Medical Staff's response satisfies the concerns of the Board of Trustees that prompted the Article XI, Section 3, notice, the Board of Trustees shall thereupon act upon the matter in accordance with Article XI, Section 2, herein. If the Medical Staff's response fails to satisfy the concerns of the Board of Trustees or if no Medical Staff response is received, the Board of Trustees shall so notify the Medical Staff, through special notice to the Chief of the Medical Staff, and the matter will be added to the agenda of the next regular or special meeting of the Board of Trustees for action by the Board of Trustees.

Section 5. Action by the Board of Trustees. The Board of Trustees, at any regular or special meeting at which the matter is duly considered, may (a) by the affirmative vote of a majority of the Trustees present, accept the Medical Staff's recommendation, either as originally recommended or as changed pursuant to Article XI, Section 3, or advise the Medical Staff of a new position which shall be communicated to the Medical Staff in accordance with Article XI, Section 3, herein; or (b) by the affirmative vote of the majority of the Trustees present, affirm its position and rescind the delegation to the Medical Staff contained in Article XI, Section 1, herein.

Section 6. Effect of Action by the Board of Trustees.

Section 6.1. Medical Staff Recommendation Accepted. If the Board of Trustees accepts the Medical Staff's recommendation as originally submitted or as changed pursuant to Article XI, Section 3, the bylaws, or other documents or amendments thereto at issue shall be deemed to have been acted upon favorably by the Board of Trustees and shall be effective as of the date of action by the Board of Trustees or at such later date as it may specify.

Section 6.2. New Position Communicated. If the Board of Trustees directs that a new position be communicated, the procedures specified in Article XI, Sections 3, 4, 5, and 6, as applicable, shall be repeated.

Section 6.3. Delegation Rescinded. If the action by the Board of Trustees is to rescind the delegation, the Board of Trustees shall, with the aid of such Medical Staff assistance as it is able to enlist, formulate documents or changes responsive to the concerns of the Board of Trustees and submit the same to the Active Medical Staff by special notice. Within sixty (60) days of such submission, the Board of Trustees shall schedule and hold a hearing on the matter open to any member of the Active Medical Staff, subject to reasonable rules concerning time allotted for debate. Thereafter, the Board of Trustees, by the affirmative vote of a majority of the Trustees present, may adopt such document or change, with amendments, if any, and direct that the same be circulated to every Medical Staff member. In the absence of the necessary affirmative vote of the Board of Trustees to adopt such document or change, the disposition of the Board of Trustees shall be in accordance with whatever action is adopted by the Board of Trustees at the meeting at which the vote is taken.

## **ARTICLE XII**

### **OPERATIONS**

Section 1. Inurement. No part of the net income of the Corporation shall inure to the benefit of or be distributable to its Trustees, officers, or other private persons, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services actually rendered and to make payments or distributions in furtherance of the Purpose and Goals set forth in Article II of these Bylaws and in the Articles of Incorporation of the Corporation.

Section 2. Permitted Activities. Notwithstanding any other provision of these Bylaws, no substantial part of the activities of the Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the Corporation shall not participate in, or otherwise intervene in (including the publishing or distribution of statements) any political campaign on behalf of, or in opposition to, any candidate for public office. Notwithstanding any other provisions of these Bylaws, the Corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from federal income taxation described in Section 501(c)(3) of the Code; (b) by a corporation, contributions to which are deductible under

Section 170(c)(2) of the Code; or (c) by a “charitable or religious corporation” as that term is defined under the Act.

### **ARTICLE XIII**

#### **AUXILIARY ORGANIZATIONS**

Any auxiliary organizations that may be established by the Board of Trustees shall be responsible and accountable to the Board of Trustees for the discharge of those duties and responsibilities delegated to it by the Board of Trustees from time to time. In establishing an auxiliary organization, the Board of Trustees shall initiate or approve bylaws, delineate the purpose and function of the organization, and shall initiate or approve any and all subsequent amendments thereto. Auxiliary organizations shall report to the Board of Trustees in a manner established by the Board of Trustees from time to time. Nothing in this Article shall require the Board of Trustees to establish any auxiliary organizations, and the Board of Trustees shall retain the power to change, restructure, reorganize, or dissolve any such organization if established. All services and functions performed by such auxiliary organizations shall be subject to the overall supervision and direction of the Chief Executive Officer.

### **ARTICLE XIV**

#### **RELIGIOUS MINISTRATIONS**

The Chief Executive Officer shall respect the request of any patient for any spiritual advisor whom he or she may desire.

### **ARTICLE XV**

#### **SEAL**

The Corporation shall use a seal to authenticate contracts and legal paper, which shall be circular in shape, two (2”) inches in diameter, and with the name of the Corporation around the margin.

### **ARTICLE XVI**

#### **AMENDMENTS**

These Bylaws may be altered, amended, repealed, or new bylaws may be adopted by a two-thirds ( $\frac{2}{3}$ ) majority vote of the number present of the Board of Trustees at any meeting of the Board of Trustees, provided that written notice of the proposed changes shall have been given to the Trustees in the notice of the meeting. Any such alterations, amendments, repeals, or

new bylaws, once adopted by the Board of Trustees as provided in this Article XVI, shall be approved by a majority vote of the Board of Trustees of Appalachian Regional Healthcare System, Inc. at any regular or special meeting held for that purpose, prior to such alterations, amendments, repeals, or new bylaws becoming effective; provided, however, that no alteration, amendment, or deletion may be made to Article V, Section 2.2 of these Bylaws by the Board of Trustees except as provided by Article V, Section 2.2 of these Bylaws, which further requires approval by a majority vote of the County Commissioners of Watauga County at a properly noticed meeting, prior to such alteration, amendment, or deletion becoming effective.

## **ARTICLE XVII**

### **GENDER**

When used in these Bylaws, the words “he,” “she,” “his,” “her,” and “they” shall include and mean the singular, plural, masculine, feminine, or neuter, as the case may be, and as required by the text.

Blank Page

**AGENDA ITEM 8:**

**MISCELLANEOUS ADMINISTRATIVE MATTERS**

*B. Announcements*

**MANAGER'S COMMENTS:**

The Board of Commissioners meeting scheduled for Tuesday, March 15, 2016, has been rescheduled to Thursday, March 17, 2016, due to the Board Room being an official polling place for the March 15, 2016, primary election.



**AGENDA ITEM 9:**

**PUBLIC COMMENT**

**AGENDA ITEM 10:**

**BREAK**

**AGENDA ITEM 11:**

**CLOSED SESSION**

Attorney/Client Matters – G. S. 143-318.11(a)(3)