TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended June 30, 2022

TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS INC.
AND AFFILIATES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Langdon & Company LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Triangle Residential Options for Substance Abusers, Inc. and Affiliates

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Triangle Residential Options for Substance Abusers, Inc. (a nonprofit organization) and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 1, Principles of Consolidation, the consolidated financial statements include the accounts of Triangle Residential Options for Substance Abusers, Inc. ("TROSA, Inc."), TROSA Commercial, Inc. and TROSA Residential, Inc. The financial statements of TROSA Commercial, Inc. and TROSA Residential Inc. were not audited in accordance with *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, the Organization adopted ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 September 29, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Organization's 2021 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated September 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Langdon & Company LLP

Garner, North Carolina
September 29, 2022

**TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**June 30, 2022
with comparative totals as of June 30, 2021**

ASSETS

	2022	2021
Current assets:		
Cash and cash equivalents	$ 22,748,604	$ 10,521,146
Replacement reserves	162,009	146,508
Accounts receivable (less allowance for doubtful accounts of $59,660 and $35,707 at June 30, 2022 and 2021, respectively)	430,373	323,978
Grants receivable	2,889,176	127,337
Other receivables - short term	159,647	73,319
Prepaid expenses	209,910	170,420
Inventory	1,290,969	1,525,795
Other assets	150,644	154,837
Property held for sale	-	324,378
Total current assets	28,041,332	13,367,718
Property and equipment, net	32,209,859	23,386,363
Other assets:		
Deposits receivable	76,928	83,073
Total other assets	76,928	83,073
Total assets	$ 60,328,119	$ 36,837,154

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities:		
Accounts payable	$ 2,530,378	$ 574,781
Accrued expenses	490,724	466,004
Funds held for residents	82,343	259,026
Current portion of long-term debt	184,656	176,394
Current maturities of obligations under capital leases	28,524	25,182
Refundable advances - grant	9,854,355	994,175
Total current liabilities	13,170,980	2,495,562
Long-term liabilities:		
Refundable advances	490,450	490,450
Long-term debt, less current portion	842,248	870,142
Obligations under capital leases, less current maturities	2,492,936	55,905
Total long-term liabilities	3,825,634	1,416,497
Total liabilities	16,996,614	3,912,059
Net assets:		
Without donor restrictions		
Undesignated	40,222,064	28,797,001
Board designated	406,294	50,500
	40,628,358	28,847,501
With donor restrictions:		
Perpetual in nature	-	100,000
Purpose restricted	2,703,147	3,977,594
	2,703,147	4,077,594
Total net assets	43,331,505	32,925,095
Total liabilities and net assets	$ 60,328,119	$ 36,837,154

*The accompanying notes are an integral
part of the consolidated financial statements.*

TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC.
AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2022
with comparative totals for 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Public support and revenue:				
Public support:				
Contributions	$ 1,764,523	$ 527,738	$ 2,292,261	$ 2,234,383
Contributed land and buildings lease (Note 6)	-	-	-	1,341,500
Grants	9,395,726	17,922	9,413,648	5,679,499
Paycheck Protection Program (Note 1)	-	-	-	624,100
Donated materials, services and property	3,245,776	56,486	3,302,262	2,980,473
Total public support	14,406,025	602,146	15,008,171	12,859,955
Revenue:				
Net vocational programs revenue	9,675,314	-	9,675,314	9,239,437
Meals program revenue	941,983	-	941,983	766,352
Graduate program revenue	213,203	-	213,203	170,161
Gain on sale of fixed assets	4,875,479	-	4,875,479	4,788
Interest income	972	-	972	1,899
Total revenue	15,706,951	-	15,706,951	10,182,637
Net assets released from restrictions	1,976,593	(1,976,593)	-	-
Total public support and revenue	32,089,569	(1,374,447)	30,715,122	23,042,592
Expenses:				
Program services	18,657,316	-	18,657,316	16,729,279
Supporting services:				
Management and general	972,814	-	972,814	850,583
Fundraising	678,582	-	678,582	752,518
Total supporting services	1,651,396	-	1,651,396	1,603,101
Total expenses	20,308,712	-	20,308,712	18,332,380
Changes in net assets	11,780,857	(1,374,447)	10,406,410	4,710,212
Net assets at beginning of year	28,847,501	4,077,594	32,925,095	28,214,883
Net assets at end of year	$40,628,358	$ 2,703,147	$43,331,505	$32,925,095

The accompanying notes are an integral part of the consolidated financial statements.

TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC.
AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

for the year ended June 30, 2022
with comparative totals for 2021

	2022				2021
	Program Services	Management and General	Fund-Raising	Grand Totals	Totals
Salaries, tax and benefits	$ 4,596,019	$ 660,646	$ 388,514	$ 5,645,179	$ 5,351,262
Resident expenses	5,710,607	-	-	5,710,607	5,004,094
Supplies	415,698	10,519	43,807	470,024	644,063
Insurance	720,163	29,777	6,811	756,751	692,336
Auto expenses	375,464	403	-	375,867	243,703
Utilities and security	1,050,687	25,154	7,637	1,083,478	1,036,742
Vocational programs expense	1,429,123	-	-	1,429,123	1,100,309
Maintenance and repairs	982,171	1,532	3,559	987,262	872,589
Equipment rent	206,687	428	3,283	210,398	165,533
Telephone	156,743	8,125	5,820	170,688	200,030
Contract services and professional fees	615,919	112,452	137,219	865,590	694,306
Bank fees	192,098	10,905	-	203,003	173,012
Interest expense	74,448	393	2,567	77,408	70,725
Small equipment	87,530	3,948	1,515	92,993	80,909
Taxes and licenses	192,999	28,113	28,465	249,577	196,515
Bad debt expense	41,324	-	4,282	45,606	8,058
Meals and travel	38,039	6,224	844	45,107	34,986
Dues and subscriptions	6,727	4,313	2,922	13,962	22,978
Training expense	30,496	5,105	6,518	42,119	20,550
Office expense	30,352	9,808	19,326	59,486	50,987
Advertising	26,095	1,531	7,316	34,942	25,227
Depreciation and amortization	1,677,927	53,438	8,177	1,739,542	1,643,466
Total expenses	$ 18,657,316	$ 972,814	$ 678,582	$ 20,308,712	$ 18,332,380

The accompanying notes are an integral part of the consolidated financial statements.

TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended June 30, 2022 with comparative totals for 2021

	2022	2021
Cash flows from operating activities:		
Cash received from grantors and contributors	$ 17,789,328	$ 7,085,171
Cash received from clients and third-party payers	10,612,601	10,023,127
Cash paid to suppliers and employees	(15,492,376)	(14,342,634)
Interest received	972	1,899
Interest paid	(4,104)	(32,490)
Net cash provided by operating activities	12,906,421	2,735,073
Cash flows from investing activities:		
Purchases of property and equipment	(7,243,578)	(2,148,740)
Proceeds from sales of property and equipment	6,689,986	-
Replacement reserve deposits	(15,501)	(7,057)
Net cash used in investing activities	(569,093)	(2,155,797)
Cash flows from financing activities:		
Repayment of debt	(247,807)	(193,357)
Proceeds from issuance of debt	154,918	-
Repayment of obligations under capital leases	(16,981)	(21,754)
Net cash used in financing activities	(109,870)	(215,111)
Net increase in cash	12,227,458	364,165
Cash at beginning of year	10,521,146	10,156,981
Cash at end of year	$ 22,748,604	$ 10,521,146
Supplemental schedule of noncash investing and financing activities:		
Contributed property and equipment	$ 203,384	$ 41,876
Acquisition of property and equipment under capital lease	2,457,354	-
Contributed land and buildings lease	-	1,341,500
	$ 2,660,738	$ 1,383,376

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Triangle Residential Options for Substance Abusers, Inc. and Affiliates (the "Organization") was incorporated on October 8, 1992. It is a multi-year residential self-help program for those with substance use disorders located in Durham, North Carolina, expanding to Winston-Salem, North Carolina. The Organization serves men and women, age 18 and older, at no cost to the individual. For some, it serves as an alternative to incarceration.

The Organization's program emphasizes education, vocational training and communication skills. In order to provide residents with job skills, the Organization operates a number of income-generating vocational training programs. These vocational training programs include moving and storage services, lawn care, Christmas tree lots and a thrift store. The Organization is also supported with significant amounts of contributions, government grants and donated materials, services and property.

Principles of Consolidation

The consolidated financial statements include the accounts of Triangle Residential Options for Substance Abusers, Inc. ("TROSA, Inc."), TROSA Commercial, Inc., and TROSA Residential, Inc., both of which TROSA, Inc. is the sole member.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Organization considers cash on hand and deposits in bank and all highly liquid investments with an original maturity of three months or less, excluding cash whose use is restricted by debt covenants, to be cash and cash equivalents. The Organization maintains its cash accounts with financial institutions, which at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization holds cash in a separate account for replacement reserves relating to notes payable with North Carolina Housing Finance Agency.

Paycheck Protection Program ("PPP")

Funds were received pursuant to PPP under Division A, Title I of the CARES Act, enacted March 27, 2020. Under the terms of the PPP, the Organization initially recognized the funds as a refundable advance and as conditions for forgiveness were met, recognized contribution revenue. All conditions were met during 2021 and the amount is reflected as revenue in the accompanying consolidated Statement of Activities for the year ended June 30, 2021.

Inventory

Inventory primarily consists of donated and purchased food and beverages, supplies and items sold in the course of the Organization's vocational training programs. Inventory is valued at the lower of cost or market and cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventory *(Continued)*

The Organization receives a significant amount of contributed goods and materials that it processes as merchandise available for sale in its thrift store. The Organization believes that these donated items do not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine inventory value at the time of the donation. Instead, the value of inventory at the end of the year is estimated using historical sales of similar inventory.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition and Receivables

Contributions, Grants and Federal and State Awards

Contributions, grants, and Federal and State awards received by the Organization are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor/grantor restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value using a risk adjusted discount rate. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire, that is, the stipulated time restrictions end or a purpose restriction is accomplished, in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Seventy-two and seventy-one percent of grant revenue reflected in the statement of activities for the years ended June 30, 2022 and 2021, respectively, was from this grantor, the Department of Health and Human Services. Additionally, 94% of grants receivable were due from the same grantor for the year ended June 30, 2022.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue Recognition and Receivables ***(Continued)***

Contributions, Grants and Federal and State Awards (Continued)

The Organization received funding through various grantors for the year ended June 30, 2022 and 2021 which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract and grant provisions. The Organization's grant commitments that are conditional upon incurring allowable expenditures in the agreements are $2,945,842 and $1,610,000 as of June 30, 2022 and 2021, respectively.

In 2022 and 2021, the Organization recognized contributions and grants of $6,379,323 and $2,535,870, respectively, that went towards the purchase or construction of property and equipment, which is reflected on the accompanying consolidated statement of financial position.

Donated Assets and Services

During 2021, the Organization adopted Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, which increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The adoption of this standard related to the Organization's donated materials, services, and property income in the accompanying consolidated statement of activities. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization presents contributed nonfinancial assets on the accompanying consolidated statement of activities, and therefore, no reclassification of prior year contributed nonfinancial assets amounts were required on a retrospective basis. The contributed nonfinancial asset disclosures have been enhanced in accordance with this standard.

The Organization received the following donated assets and services for the year ending June 30:

	2022	2021
Clothing, materials, and supplies	$ 1,490,053	$ 1,726,315
Food	1,399,731	1,163,823
Property and equipment	198,455	-
Contribution portion of zero interest loan (Note 8)	105,364	-
Labor	66,587	41,876
IT services	42,072	48,459
	3,302,262	2,980,473

Donations of clothing, materials, and supplies are either monetized or utilized by the Organization. Donated clothing, materials, and supplies, when utilized, are used in the Organization's programs and are valued by researching the price of similar items. Donated clothing, materials, and supplies utilized in the thrift store are valued using the historical sales of similar inventory.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue Recognition and Receivables ***(Continued)***

Donated Assets and Service (Continued)

Donated food is utilized for the Organization's programs. Donated food is valued by researching the price of similar items. In the case of an item where this information is not available, like bulk food donations, the Organization applies a per pound value based determined by Feed the Children at the beginning of the year.

Donated property and equipment are utilized by the Organization for their programs and is valued through appraisals.

The Organization entered into a zero-interest loan during the year secured by one of its residential properties. See Note 8 for description of loan. The residential property is utilized for the Organization's programs. The imputed interest for the loan was calculated based on the Organization's incremental borrowing rate and is recorded as a contribution in the accompany consolidated statement of activities.

The Organization recognizes the fair value of contributed labor and services received if such services a) create or enhance a nonfinancial asset or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Contributed labor is valued based on the average volunteer hourly rate in the state of North Carolina and are utilized for use in the Organization's programs. Contributed services received during the year related to IT services. Contributed services are valued based on the current rates for similar services. Contributed services are used for the Organization's programs.

The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs, but which do not meet the criteria for financial statement recognition.

Donations of marketable securities are monetized promptly upon receipt.

Net Vocational Program Revenue

Net vocational program revenue includes revenue from moving and storage services, lawn care, Christmas tree lots, and thrift store. All contracts are for less than one year and the Organization recognizes revenue related to net vocational program revenue when control transfers to the customer, at a point in time.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by any applicable discounts.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue Recognition and Receivables ***(Continued)***

Meals Program Revenue

TROSA, Inc. participates in the NC Supplemental Nutritional Assistance (SNAP) program on behalf of its clients. They receive and electronic benefits transfer (EBT) card from SNAP for eligible clients, and TROSA, Inc. is authorized to use the card to reimburse them for meals provided to eligible residents. This revenue is recognized at a point in time as meals are provided.

Graduate Program Revenue

Graduate program revenue is recognized at a point in time once the performance obligations are met.

Contract Balances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a method that approximates a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a reduction of accounts receivable.

Property and Equipment

Property and equipment are stated at cost if purchased and at fair value at the date of contribution of assets donated to the Organization. The Organization capitalizes additions of property and equipment in excess of $2,000 cost or fair value. Annual depreciation is computed using the straight line method.

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments is capitalized and depreciated over their useful lives.

Advertising Expenses

The cost of advertising is charged to expense as incurred. Advertising expense amounted to $34,942 and $25,277 for the years ended June 30, 2022 and 2021, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

The majority of expenses are directly coded to programs. Allocated expenses include salaries, tax, and benefits, which are allocated based on hours worked, and occupancy-related expenses, such as utilities and security, which are allocated based on square feet.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income Taxes

TROSA, Inc. is exempt from income tax under the Internal Revenue Code Section 501(c)(3). TROSA Residential, Inc. and TROSA Commercial, Inc. are exempt from income tax under Internal Revenue Code Section 501(c)(2). There is no unrelated business income tax for the years ended June 30, 2022 and 2021.

The Organization evaluates any uncertain tax positions. Accordingly, the Organization's policy is to record a liability for any tax position taken that is beneficial to the Organization, including any related interest and penalties, when it is more likely than not the position of management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2022 or 2021.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Management considers the estimates of the valuation of donated inventory, including food, beverages, and supplies, as well as donated services, property, and rent to be critical accounting policies requiring extensive subjective judgments. The valuation of donated food, beverages, supplies, services, property, and rent is based on quoted valuations, historical experience and price comparisons for similar products and services. Actual results could differ from these estimates under different assumptions or conditions.

Schedule of Expenditures of Federal and State Awards

The accompanying Schedule of Federal and State Awards includes the Federal and State grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Organization has elected to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

Comparative Totals

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2021, from which the summarized information was derived.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Reclassifications

Certain items included in the 2021 consolidated financial statements have been reclassified to conform with the 2022 presentation. Change in net assets of the Organization previously reported for 2021 were not affected by these reclassifications.

2. LIQUIDITY AND AVAILABILITY

The Organization's working capital and cash flows vary throughout the year due to timing of cash receipts for fees from the Organization's vocational programs and cost-reimbursement grants. The Organization is supported by significant restricted contributions and grants. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements into a sweep account and through money market accounts and short-term certificates of deposit. Additionally, to help manage unanticipated liquidity needs and as discussed in more detail in Note 8, the Organization maintains $750,000 and $2,000,000 lines of credit. The Organization had no outstanding balance for lines of credit as of June 30, 2022 and 2021.

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts with donor restrictions for time or purpose.

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	$22,748,604	$10,521,146
Accounts and other receivables	590,020	397,297
Promises to give and grants receivable	2,889,176	127,337
	26,227,800	11,045,780
Less amounts not available to be used within one year, due to:		
Donor-imposed restrictions	(2,703,147)	(3,977,594)
Financial assets available to meet general expenditures within one year	$23,524,653	$ 7,068,186

3. PROPERTY HELD FOR SALE

During the fiscal year ended June 30, 2021, the Board of Directors voted to sell two properties owned by the Organization in Durham, North Carolina. Both of the properties were sold during fiscal year ended June 30, 2022.

4. PROPERTY AND EQUIPMENT

Property and equipment in the accompanying consolidated financial statements is presented net of accumulated depreciation. The components of property and equipment at June 30, 2022 and 2021 are as follows:

	2022	2021
Land	$ 2,351,711	$ 2,248,391
Contributed land and buildings lease	1,397,985	1,341,500
Buildings and improvements	29,087,996	27,394,897
Furniture, equipment, and software	1,676,960	1,762,883
Vehicles	4,618,492	4,468,677
Construction in progress	8,444,414	886,653
	47,577,558	38,103,001
Less accumulated depreciation and amortization	(15,367,699)	(14,716,638)
Net property and equipment	$ 32,209,859	$ 23,386,363

5. REFUNDABLE ADVANCES – GRANTS

During 2022, the Organization received a cost-reimbursement grant totaling $11,000,000, restricted for Phase II of the Triad Development Project. The entire grant amount was advanced in April 2022 and at June 30, 2022, $9,854,355 remained unexpended and is classified as a current liability in the accompanying consolidated statement of financial position. The grant ends on June 30, 2023.

During 2019, the Organization received a cost-reimbursement grant totaling $6,000,000, restricted for the development and construction of a new satellite facility in the Triad area of North Carolina. At June 30, 2021, $994,175 of advances remained unexpended.

6. LEASES

Contributed Land and Buildings Lease

During 2021, the Organization entered into an assignment of lease agreement for the Triad campus in Winston-Salem, North Carolina from Forsyth County through November 30, 2061 for annual rent of $1. In accordance with FASB Codification Subtopic 958-605 *Not-for-Profit Entities—Revenue Recognition—Contributions,* a contribution equal to the fair value of the assets is recorded upon execution of the lease. The Organization temporarily subleased the property rent-free to the former tenant through May 2022.

Additionally, the Organization agreed to pay the Assignor $375,000 for improvements made to the property, a portion of which was paid, with the remaining amount accrued during 2022. The entire amount is included in construction in progress in the accompanying consolidated statement of financial position. $187,500 was paid to the Assignor during the year, with the remaining amount included in accounts payable in the accompany consolidated statement of financial position.

6. LEASES *(Continued)*

Contributed Land and Buildings Lease (Continued)

There are several restrictive covenants contained in the agreement including requirements to maintain adequate insurance, the Organization must continue to provide substance abuse treatment services on the premises and commit to make additional capital improvements to the premises for the purpose of expanding and improving the delivery of substance abuse treatment services for those who are chemically dependent in and around Forsyth County. The lease shall be terminated following a notice & an opportunity to cure period of 6 months if the premises are no longer used for the above purposes.

Sale-Leaseback

During 2022, the Organization sold a property and entered into an agreement to leaseback the property for one year. As the Organization retains the rights to only a minor portion of the remaining use of the property sold, therefore, the sale and lease transactions are accounted for separately. The gain of $3,549,378 for the sale is recognized in the accompanying consolidated statement of activities and included gain on sale of fixed assets.

Operating Leases

The Organization leases equipment, buildings, dumpsters, and warehouse space under various non-cancelable operating lease agreements. Lease expense relating to these leases was $90,096 and $82,581 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under the non-cancelable operating leases, including the impact of escalation clauses are as follows:

2023	$	92,346
2024		32,319
2025		12,609
2026		12,609
2027		11,558
Total minimum lease payments	$	161,441

Capital Leases

In February 2021, the Organization entered a 10-year lease agreement for the Triad thrift store property, with the lease commencing October 1, 2021 and rental payments commencing March 1, 2022. The Organization also leases equipment under capital lease agreements expiring in 2025. The assets and liabilities under each capital lease are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The assets are amortized over the related lease term or the estimated productive life. Amortization of the building under capital lease was $174,063 for the years ended June 30, 2022. Under this agreement, the Organization also paid a security deposit of $50,652. Amortization of the equipment under capital leases was $18,472 and $18,022 for the years ended June 30, 2022 and 2021, respectively.

6. LEASES *(Continued)*

Capital Leases (Continued)

The property and equipment and related accumulated amortization as of June 30 are as follows:

	2022	2021
Building	$ 2,457,354	$ -
Equipment	141,459	141,459
Less accumulated amortization	(241,361)	(48,826)
	$ 2,357,452	$ 92,633

The present value of future minimum lease payments under capital leases are as follows:

2023	$ 28,524
2024	340,835
2025	321,291
2026	328,424
2027	334,857
Thereafter	1,718,299
Total minimum lease payments	$ 3,072,230
Less amount representing interest	(550,770)
Present value of net minimum capital lease payments	$ 2,521,460
Less current maturities	(28,524)
Obligations under capital leases, less current maturities	$ 2,492,936

7. REFUNDABLE ADVANCES

Refundable advances are summarized as follows as of June 30, 2022 and 2021:

	2022	2021
North Carolina Housing Finance Agency Refundable advance, secured by a deed of trust on the property and assignment of rents and leases. Assuming the Organization complies with applicable restrictions and covenants, the advance will be forgiven in 10% increments beginning in 2024 and will be entirely forgiven by November 2033.	$ 120,000	$ 120,000
North Carolina Housing Finance Agency Refundable advance, secured by a deed of trust on the property and assignment of rents and leases. Assuming the Organization complies with applicable restrictions and covenants, the advance will be forgiven in 10% increments beginning in 2028 and will be entirely forgiven by November 2037.	70,450	70,450

7. REFUNDABLE ADVANCES *(Continued)*

	2022	2021
PNC Bank, National Association		
Refundable advance, secured by a deed of trust on the property and assignment of rents and leases pursuant to the Federal Home Loan Bank Act. Assuming the Organization complies with applicable restrictions and covenants, the advance will be forgiven in full in October 2027.	300,000	300,000
Total refundable advances	$ 490,450	$ 490,450

8. LONG-TERM DEBT

Long term debt is summarized as follows at June 30, 2022 and 2021:

	2022	2021
North Carolina Housing Finance Agency		
Non-interest bearing note payable, due December 2037 in monthly installments of $794, with a face amount of $147,042 net of unaccreted discount of $57,037 (effective interest rate, 6.9%) as of June 30, 2022, secured by a deed of trust on property and assignment of rents and leases.	$ 90,005	$ 93,202
City of Durham		
Non-interest bearing note payable, due April 2035 in monthly installments of $769, with a face amount of $118,305 net of unaccreted discount of $33,869 as of June 30, 2022 (effective interest rate, 5.6%) secured by real property and assignment of rents and leases.	84,436	88,819
Truist		
Acquisition and construction loan in the name of TROSA Commercial, Inc. with a fixed interest rate of 3.99% due in monthly installments of $15,707, maturing September 2024, secured by real property. Guaranteed by TROSA, Inc. The terms of the agreement provided for interest only payments with deferral of principal payments for April, May, and June 2020 with the deferred principal to be due at time of final payment on the loan.	447,206	613,917

8. LONG-TERM DEBT *(Continued)*

	2022	2021
North Carolina Housing Finance Agency		
Non-interest bearing note payable, due in full at maturity (October 2042), with a face amount of $500,000 net of unaccreted discount of $241,136 as of June 30, 2022 (effective interest rate, 3.25%), secured by real property and assignment of rents.	258,864	250,598
North Carolina Housing Finance Agency		
Non-interest bearing note payable, due June 2052 in monthly installments of $700, with a face amount of $251,546, net of unaccreted discount of $105,153 (effective interest rate 4.0%) as of June 30, 2022, secured by secured by a deed of trust on property adn assignment of rents and leases.	146,393	-
	$1,026,904	$1,046,536
Less current portion	(184,656)	(176,394)
Long-term portion	$ 842,248	$ 870,142

Future maturities of long-term debt at June 30, 2022 are summarized as follows:

Year ending June 30,	
2023	$ 184,656
2024	191,969
2025	104,769
2026	12,607
2027	13,339
Thereafter	519,564
	$1,026,904

Certain agreements contain various restrictive covenants, including requirements regarding minimum cash to debt ratio, filing of annual compliance certificates, maintaining documentation related to low-income housing calculations and maintaining replacement reserve deposits. The Organization was in compliance with restrictive covenants contained in the debt agreements at June 30, 2022 and 2021.

The discount on the applicable loans is accreted to interest expense over the lives of the loans. The aggregate remaining unaccreted discount as of June 30, 2022 and 2021 was $437,195 and $352,893, respectively. Imputed interest expense of $19,163 and $19,372 is reported in the accompanying consolidated statement of functional expenses for the years ended June 30, 2022 and 2021, respectively.

8. LONG-TERM DEBT *(Continued)*

Construction Loan

In July 2021, the Organization entered into a conditional commitment for permanent financing of $600,000 with NCHFA for the construction of two congregate living buildings to provide ninety-six beds to provide housing for participants of the Organization's long-term residential substance abuse program to be known as TROSA's Triad Expansion. The non-interest bearing loan will be payable in full 30 years from the date of closing and will be secured by a deed of trust on the property and subject to certain deed restrictions.

9. LINES OF CREDIT

The Organization has available an unsecured revolving line of credit in the amount of $750,000 for the years ended June 30, 2022 and 2021. Starting in March 2021, interest accrued at the bank's prime rate minus ¼ of a percent but never lower than 3%. For the year ended June 30, 2022 and 2021, interest accrued at 4.50% and 3%, respectively. There was no outstanding balance at June 30, 2022 or 2021, and the line expires on March 10, 2023.

The Organization also has available a revolving line of credit in the amount of $2,000,000 for the years ended June 30, 2022 and 2021. Interest accrues at a rate based on the lender's Prime Rate (4.75% and 3% at June 30, 2022 and 2021, respectively). The line was collateralized by a first deed of trust on certain real property. There was no outstanding balance at June 30, 2022 or 2021 and the line expires on April 30, 2024.

10. NET ASSET DESIGNATIONS

Founders Fund

The Board has designated net assets without donor restrictions to sustaining TROSA's transformative impact through special projects and initiatives that will continue TROSA's growth and ensure the legacy of TROSA's founder. These initiatives will include special projects related to expansion, leadership development training for residents and graduates, and expanded education opportunities for residents. Amounts designated are $406,294 and $50,500 as of June 30, 2022 and 2021, respectively.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2022 and 2021:

	2022	2021
Restricted in perpetuity - donated land	$ -	$ 100,000
Restricted for purpose:		
Food commodities	-	1,191
Education	8,285	1,145
Resident Life	126,723	5,000
T-East	-	293,180
Triad	730,420	1,929,265
Thrift	-	123
Dental	874	53,297
Contributed Land and Buildings Lease	1,397,985	1,341,500
NCHFA Housing Program	57,031	63,362
City of Durham Housing Program	35,285	40,129
NCHFA Housing Program - Dormitories	241,391	249,402
NCHFA Housing Program - T-East Dormitories	105,153	-
Total restricted for purpose	2,703,147	3,977,594
Total net assets with donor restrictions	$ 2,703,147	$ 4,077,594

Title of certain land and building, with a carrying value of $100,000, was transferred from Durham County (the “County) in 1994. Under the terms of this agreement, title will revert back to the County if it ceases to be used for the purpose of conducting community education, development, revitalization, drug treatment, and recreational activities or for any other purpose for which the County could use the property as a governmental entity. This land and building was sold in December 2021 and related net assets have been released from restrictions.

11. NET ASSETS WITH DONOR RESTRICTIONS *(Continued)*

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Donated land	$ 100,000	$ -
Food commodities	19,113	26,837
Education	32,859	855
Resident Life	19,777	13,000
T-East	293,181	-
Triad	1,438,846	63,760
Thrift	123	1,082
Dental	53,041	72,271
COVID-19 Relief	-	638
NCHFA Housing Program	6,331	6,544
City of Durham Housing Program	4,844	5,082
NCHFA Housing Program - Dormitories	8,267	7,747
NCHFA Housing Program - T-East Dormitories	211	-
	$ 1,976,593	$ 197,816

12. RETIREMENT PLAN

Employees of the Organization may participate in an Internal Revenue Code section 403(b) retirement savings plan. The plan was funded solely by employee contributions to the plan, pursuant to a salary reduction agreement, until October 1, 2014 when the Organization began providing an employer match. The match is dollar for dollar for the first 3% and fifty cents on the dollar for the next 2% with a maximum match of 4%. An employee must contribute to receive the match. Contributions to the plan during the year ended June 30, 2022 and 2021 were $136,401 and $136,319, respectively.

Effective July 1, 2016, the Organization also sponsors an Internal Revenue Code Section 457(b) defined contribution retirement plan covering key managerial employees who meet eligibility requirements regarding service and age. The fair value of contributions to the plan for the year ended June 30, 2022 and 2021 were $22,804 and $26,535, respectively.

13. CONTINGENCIES

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's employees and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2022, the date which the consolidated financial statements are available for issue.

**TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC.
AND AFFILIATES**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

for the year ended June 30, 2022

Federal/State Grantor/Pass Through Grantor/Program	Assistance Listing Number	Pass Through Grantor's Identifying Number	Federal & State Expenditures
Federal Awards:			
U.S. Department of Health and Human Service			
Passed through NC Department of Health and Human Services			
Substance Abuse Prevention and Treatment Block Grant	93.959	44420	$ 1,600,000
Appalachian Regional Commission			
Appalachian Regional Development	23.001	PW-19706-IM-19	11,498
U.S. Department of Agriculture			
Passed through NC Department of Agriculture			
Emergency Food Assistance Program (Food Commodities)	10.569	G20100007611DFC	19,113
Department of Veterans Affairs - VA Health			
Passed through the Durham VA Medical Center			
VA Homeless Providers Grant and Per Diem Program	64.024	558-PD-21	130,519
TOTAL FEDERAL AWARDS			1,761,130
State Awards:			
NC Department of Health and Human Services Division of Budget & Analysis	N/A	44420	750,716
NC Department of Health and Human Services Division of Mental Health, Developmental Disabilities and Substance Abuse Services	N/A	00038147	4,311,119
NC Office of State Budget and Management	N/A	40211	1,145,645
Alliance Health	N/A	N/A	350,000
TOTAL STATE AWARDS			6,557,480
TOTAL FEDERAL AND STATE AWARDS			$ 8,318,610

Langdon & Company LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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 Board of Directors of
Triangle Residential Options for Substance Abusers, Inc. and Affiliates

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 consolidated financial statements of Triangle Residential Options for Substance Abusers, Inc. and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2022. The financial statements of TROSA Commercial, Inc., and TROSA Residential, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with TROSA Commercial, Inc. or TROSA Residential, Inc.

Report on Internal Control over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated financial statements. 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 results 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.

Langdon & Company LLP

Garner, North Carolina
September 29, 2022

Langdon & Company LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Triangle Residential Options for Substance Abusers, Inc. and Affiliates

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Triangle Residential Options for Substance Abusers, Inc.'s (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 programs for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Langdon & Company LLP

Garner, North Carolina
September 29, 2022

TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Triangle Residential Options for Substance Abusers, Inc. and Affiliates (the "Organization") were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

2. No significant deficiencies disclosed during the audit of the consolidated financial statements are reported in the Independent Auditor's 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*.

3. No instances of noncompliance material to the consolidated financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award program expresses an unmodified opinion on the major federal program.

6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.

7. The program tested as a major program is:

   U.S. Department of Health and Human Services – Substance Abuse Prevention and Treatment Block Grant – CFDA #93.959

8. The threshold used for distinguishing Type A and B programs was $750,000.

9. The Organization qualifies as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None