

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2016

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



**NC\$OSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
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## **AUDITOR'S TRANSMITTAL**

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The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina

We have completed a financial statement audit of the North Carolina Department of Health and Human Services for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

## AN OVERVIEW OF HOW TO USE THIS REPORT

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This report provides audited financial information on the North Carolina Department of Health and Human Services (Department) and is designed to provide the information at a summarized level in the beginning, with more details of the information further into the report. This report is made up of various components as listed in the Table of Contents.

The Department of Health and Human Services is comprised of 11 divisions. The “divisions” presented herein may not represent actual formal divisions within the Department, but are representative of the major functions within the Department (see Note 1-A in the “Notes to the Financials” for further explanation).

The financial information in the report is initially presented at a summarized departmental level, then presented at a combining division level, and finally presented individually for each division. Where some numbers need further explanation, additional detail is provided in the Exhibits or “Notes to the Financial Statements”. The Exhibits/Notes will be referenced next to the line item caption.

**Required Information:** (Information required to be reported by state departments per Governmental Accounting Standards Board and *Government Auditing Standards*)

The **Independent Auditor’s Report** presents the auditor’s opinion on the financial statements, which is whether the financial statements, as presented, are materially correct.

The **Management’s Discussion and Analysis** presents a discussion of the reasons for significant financial changes between years. The Management’s Discussion and Analysis is prepared by the Department and has not been audited.

**“A” Exhibits** present the Balance Sheet as of June 30, 2016 (with comparative totals for June 30, 2015) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2016 (with comparative totals for fiscal year ended June 30, 2015) for the **Department as a whole**.

**Notes to the Financial Statements** are designed to give the reader additional information concerning the Department and further support the financial statements.

**“B” Exhibit** presents a budget-to-actual comparison for the General Fund (for the fiscal year ended June 30, 2016) of the **Department’s General Fund as a whole**.

**“C” Exhibits** present the financial information combining the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances for all the divisions in the Department for fiscal year ended June 30, 2016 (with comparative totals for fiscal year ended June 30, 2015).

**“E” through “O” Exhibits** present Balance Sheets, Statements of Revenues, Expenditures, and Changes in Fund Balances **by division** for fiscal year ended June 30, 2016 (with comparative totals for fiscal year ended June 30, 2015). These exhibits also present budget-to-actual comparisons for the **General Fund by division** for fiscal year ended June 30, 2016.

### **Supplementary Information:**

**“D” Exhibit** presents details of one expenditure line item on the financial statements classified “Grants, State Aid, and Subsidies” as follows:

- D-1 – Details of amounts included as grants, state aid, and subsidies for each of the divisions for June 30, 2016 as presented on Exhibit C-2.
- See further breakdown of grants, state aid, and subsidies for selected divisions at corresponding “E” through “O” Exhibits.

**“P” Exhibits** present Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balances for the other governmental funds reported on “A” Exhibits (Special Revenue Funds and Capital Projects Funds for fiscal year ended June 30, 2016 with comparative totals for fiscal year ended June 30, 2015).

**“Q” Exhibit** presents a further breakdown of transfers between divisions.

### **Required Information:**

The **Independent Auditor’s Report on Internal Control and on Compliance** – this report is not an opinion on internal control or compliance but rather a report on the matters related to internal control and compliance that were noted as a part of the audit of the financial statements.



Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
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## **INDEPENDENT AUDITOR'S REPORT**

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Mr. Richard O. Brajer, Secretary  
and Management of the North Carolina Department of Health and Human Services

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the divisions of Central Administration, Medical Assistance, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, Mental Health/Developmental Disabilities and Substance Abuse Services, and Health Benefits of the North Carolina Department of Health and Human Services (Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department'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 Department'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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the divisions of Central Administration, Medical Assistance, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, Mental Health/Developmental Disabilities and Substance Abuse Services, and Health Benefits of the North Carolina Department of Health and Human Services, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1, the financial statements of the North Carolina Department of Health and Human Services are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Health and Human Services. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2016, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Prior Period Information*

We have previously audited the accompanying financial statements of the governmental activities, the divisions of Central Administration, Medical Assistance, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, and Mental Health/Developmental Disabilities and Substance Abuse Services of the Department as of June 30, 2015 and the respective changes in financial position for the year then ended June 30, 2015 and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 7, 2016.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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.

*Other Information*

The supplementary schedules of grants, state aid, and subsidies expenditures, combining schedules of other governmental funds, and transfers 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. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2017 on our consideration of the Department'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 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 Department's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 7, 2017



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is an overview and analysis of the financial performance of the North Carolina Department of Health and Human Services (Department) for the fiscal years ended June 30, 2016 and 2015. This discussion should be read in conjunction with the financial statements and related notes to the financial statements.

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

The Department is a part of the State of North Carolina and is not a separate legal entity. The Department's accounts and transactions are included in the State of North Carolina's *Comprehensive Annual Financial Report* (CAFR) as a part of the State's General Fund and Other Governmental Funds.

The accompanying financial statements are presented in accordance with generally accepted accounting principles (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Boards (GASB) for governmental entities. GAAP requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the Department. Because the Department is not a separate legal or reporting entity, government-wide financial statements are not prepared.

### ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Department's most significant funds (i.e., major funds). The Department has only governmental funds, which consist of the General Fund, Special Revenue Fund, and Capital Projects Fund. The General Fund is presented separately in these statements, since it is the only major governmental fund. Data for all other governmental funds is combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

### ***Governmental Funds***

The Department prepares the governmental fund financial statements using the modified accrual basis of accounting and a current financial resources measurement focus. Because this information does not encompass the additional long-term focus of the government-wide statements, capital asset and long-term liability accounts are not included in these financial statements. However, these amounts are reported in the notes to the financial statements. The governmental fund financial statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. The Balance Sheet reports the governmental fund's assets, deferred outflows, liabilities, and deferred inflows that are considered relevant to an assessment of near-term liquidity. The difference between assets (plus deferred outflows) and liabilities (plus deferred inflows) is reported as fund balance. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports the resource flows (revenues and expenditures) of the governmental funds.

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

Notes to the financial statements are provided to give the reader additional information concerning the Department and further supports the basic financial statements.

### ***Required Supplementary Information***

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes General Fund



budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

### ***Other Supplementary Information***

Other supplementary information includes the combining financial statements for the Other Governmental Funds, schedules of grants, state aid, and subsidies as well as intercompany transfers.

### **Financial Analysis of the Department**

The following is comparative condensed financial information and a financial analysis for balances reported as of June 30, 2016 and 2015.

North Carolina Department of Health and Human Services Condensed Balance Sheets Governmental Funds		
	2016	2015 (Restated)
Assets	\$ 1,075,958,704	\$ 1,218,814,263
Deferred Outflows of Resources	0	0
Total Assets and Deferred Outflows	\$ 1,075,958,704	\$ 1,218,814,263
Liabilities	\$ 1,307,353,123	\$ 1,345,401,607
Deferred Inflows of Resources	5,430,130	8,528,404
Fund Balances		
Nonspendable	10,623,786	10,946,503
Restricted	68,666,281	160,216,155
Committed	76,519,316	56,725,488
Assigned	4,882,171	5,214,939
Unassigned	(397,516,103)	(368,218,833)
Total Fund Balances	(236,824,549)	(135,115,748)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 1,075,958,704	\$ 1,218,814,263

Total assets decreased \$142.9 million, or 11.72%, compared to fiscal year 2015. This decrease is primarily due to the change in the cash carryforward process, which resulted in a decrease in the cash carryforward balance of \$134.6 million. Session Law 2014-100 required carryforward funds be transferred from the Department's General Fund and placed into the Carryforward Reserve Fund held at the Office of the State Controller. Prior to 2016, the cash carryforward funds remained in the Department's General Fund.

Total liabilities decreased \$38.0 million, or 2.83%, compared to fiscal year 2015. This decrease is primarily related to a decrease in the amounts due to component units for the UNC Hospitals Upper Payment Limit (UPL) accrual. The payments for the UNC Hospitals Disproportionate Share Hospital (DSH) UPL were made in June 2016, whereas for the prior fiscal year, payments were made after year-end. The Division of Medical Assistance's (DMA) medical claims payable increase is due directly to the actuarial calculation of claims incurred but not paid. There are many factors used by the actuary in determining the claims incurred but not paid; for example, month of service, months between service date and payment date, and categories of services, etc.

Deferred inflows of resources, which primarily represent unavailable Mental Health patient revenues, decreased \$3.1 million, or 36.33%, from the prior year. Significant changes were incorporated in the prior year (patient account level review was performed to identify collectible charges and using established reimbursement rates and/or historical reimbursement data, more accurately project contractual adjustments and third party deferred revenues). This same methodology was continued in the current year, resulting in a realistic deferred revenue total of \$4,110,718 for the Division of State Operated Healthcare Facilities (DSOHF), which is reported within the Division of Mental Health (DMH).

North Carolina Department of Health and Human Services  
Condensed Statements of Revenues, Expenditures, and  
Changes in Fund Balances  
Governmental Funds

	2016	2015
<b>Revenues</b>		
Federal Funds	\$ 13,301,907,957	\$ 13,366,321,662
Other Revenues	677,433,887	607,526,955
Total Revenues	<u>13,979,341,844</u>	<u>13,973,848,617</u>
<b>Expenditures</b>		
Personal Services	1,033,138,066	1,013,194,821
Contracted Personal Services	332,840,541	326,368,845
Supplies and Materials	53,586,311	57,144,820
Travel	7,972,082	8,010,940
Communication	9,909,837	10,749,781
Utilities	16,322,464	17,297,275
Data Processing Services	22,175,494	18,193,834
Other Services	13,786,130	14,247,338
Other Fixed Charges	17,307,064	14,292,118
Capital Outlay	56,671,469	40,757,465
Grants, State Aid, and Subsidies	16,950,051,913	17,146,264,339
Expenditures to Other State Agencies	175,358,122	132,104,570
Other Expenditures	45,874,601	49,147,417
Total Expenditures	<u>18,734,994,094</u>	<u>18,847,773,563</u>
Excess Expenditures Over Revenues	<u>(4,755,652,250)</u>	<u>(4,873,924,946)</u>
<b>Other Financing Sources (Uses)</b>		
State Appropriations	4,837,156,439	5,010,775,878
Transfers In	445,466,619	426,452,209
Transfers Out	(445,466,619)	(426,452,209)
Transfers to State Reserve Fund	(185,248,059)	
Other	2,035,069	(745,702)
Total Other Financing Sources	<u>4,653,943,449</u>	<u>5,010,030,176</u>
Net Change in Fund Balances	(101,708,801)	136,105,230
Fund Balances - Beginning of Year	<u>(135,115,748)</u>	<u>(271,220,978)</u>
Fund Balances - End of Year	<u>\$ (236,824,549)</u>	<u>\$ (135,115,748)</u>

Total revenues increased \$5.5 million, or 0.04% compared to the prior year, primarily due to an increase in other revenues of \$69.9 million, which was offset by a decrease of \$64.4 million in federal funds. The increase in other revenues is related to increased Women, Infants, and Children (WIC) Infant Formula rebates as well as increased revenues from other state agencies for capital improvements. The decrease in federal funds is primarily related to decreased grants, state aid, and subsidies expenditures. Grants, state aid, and subsidies

expenditures and federal funds have a direct relationship. A decrease in grants, state aid, and expenditures results in less federal fund reimbursements.

Total expenditures decreased \$112.8 million, or 0.60% compared to the prior year. The decrease is primarily due to a decrease of \$196.2 million in spending for grants, state aid, and subsidies. The Division of Social Services' (DSS) grant, state aid, and subsidies expenditures decreased \$85.5 million, or 2.40%, from 2015. This decrease was primarily related to a decrease in food stamp recipients. Medicaid (the State's largest public assistance program) grants, state aid, and subsidies expenditures decreased \$46.6 million from 2015. The new Medicaid management information system (NCTracks, which became operational in July 2013), continues to maximize paperless processing and improve administrative efficiency. This reduction in costs through efficiency offsets the additional expenditures, which correspond with the growth in enrollment.

The divisions of Mental Health (DMH) and Public Health (DPH) also had decreased grants, state aid, and subsidies expenditures of \$45.5 million and \$18.5 million, respectively. The decrease in expenditures for DPH is related to a decrease in WIC Food expenditures. The decrease in expenditures for DMH is related to a decrease in payments to Local Management Entities (LME).

The decrease in expenditures for grants, state aid and subsidies was partially offset by an increase of \$15.9 million in capital outlay and an increase in expenditures to other state agencies of \$43.3 million. The new Cherry Hospital in Goldsboro was opened during the fiscal year, which was the primary reason for the increase in capital outlay. In addition, DMA received over \$40,000,000 more in non-tax revenues from DSH related receipts than in 2015. These funds are transferred to the Office of the State Controller to the reserve fund.

Total other financing sources decreased \$356.1 million, or 7.11%, compared to the prior year. The most significant change is the decrease in state appropriations, primarily due to the total decrease in expenditures for grants, state aid, and subsidies at the divisions of Social Services, Medical Assistance, Mental Health, and Public Health. State appropriations are used to provide the non-federal share of the federal programs. The decrease in other financing sources is also related to the change in the cash carryforward process (as discussed earlier) resulting in a transfer out of \$185.2 million in 2016.

### **Financial Analysis of the Department's Fund Balance**

The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus on the Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. At June 30, 2016, the Department's governmental funds reported a fund balance deficit of \$236,824,549, an increase of \$101,708,801, or 75.28%, from the prior fiscal year-end. The majority of this amount was classified as unassigned fund balance in the General Fund (available for spending at the Department's discretion). The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (e.g., inventories), 2) restricted for particular purposes by external sources, 3) committed for particular purposes by the N.C. General Assembly, or 4) assigned for particular purposes by the Office of State Budget and Management.

The Department has only one major governmental fund, the General Fund. The fund balance of the Department's General Fund decreased \$124,147,054 (or 77%) to a negative \$285,314,128 at June 30, 2016. The fund balance deficit increase is primarily attributable to

the change in the carryforward process (as discussed earlier). The 2015 fund balance classifications for committed and unassigned were restated to be consistent with current year presentation based on new information regarding certain activity within the Division of Central Administration's General Fund.

### **Budget Variations**

Data for the budget variances is presented in Exhibit B-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) of this report.

#### ***Variances – Original and Final Budget:***

The final budgeted revenues and expenditures were \$428.2 million and \$447.2 million, respectively, more than the original budget. The increases are primarily comprised of a \$312.1 million increase in the final budgeted federal funds and a \$420 million increase in the final budgeted aid and public assistance expenditures. Generally, the variances between original and final budget are attributable to the timing and length of the budget preparation process and the budgeting of federal funds for the fiscal year. The original budget for fiscal year 2015-16 was prepared approximately six months prior to the final budget. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final budget, it is expected that significant variances can occur.

#### ***Variances – Final Budget and Actual Results:***

Actual total revenues were \$991.3 million less than the final budgeted revenue amounts. Likewise, actual total expenditures were \$1.32 billion less than budgeted expenditures. Budgeted revenues and expenditures were unrealized mostly due to a \$1.14 billion decrease in aid and public assistance payments incurred versus the amount budgeted. This also causes a decrease in the federal funds received. Variances occur between the budget and actual federal funds because actual federal fund receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred, the actual receipt of federal funds could be significantly less than the budget.

### **Economic Outlook**

The 2015 Session of the General Assembly passed SL 2015-245, HB 372, which directed the Department to create the Division of Health Benefits (DHB). Its purpose is to transform the State's current Medicaid and NC Health Choice programs to a managed care delivery system that provides budget predictability for the taxpayers of this State while ensuring quality care to those in need. The DHB submitted a Section 1115 Demonstration Waiver application to the Centers for Medicare and Medicaid Services (CMS) on June 1, 2016. Eighteen months after approval of all necessary waivers and State Plan Amendments by CMS, the capitated contracts to deliver Medicaid and NC Health Choice service will commence.

Other highlights of the Divisions within the Department are listed below:

#### ***Division of Medical Assistance***

- One of the major budget drivers for the General Fund, historically, has been the Medicaid program. Medicaid enrollment increased 3.7% to 1.9 million individuals (or

19.2% of North Carolina's population). State appropriation expenditures for Medicaid decreased 6.8% to \$3.5 billion. Medicaid ended the fiscal year without a budget shortfall for the second year in a row. Prior to the fiscal year 2014-15, Medicaid experienced shortfalls of nearly \$1 billion over a three-year period. NCTracks, the replacement system for the Medicaid Management Information System, went live on July 1, 2013. NCTracks is the first multi-payer system in the country and the largest information technology project in North Carolina history. In April 2015, the system was certified by the Centers for Medicare and Medicaid Services.

- Over the next four years, overall Medicaid enrollment is projected to continue its growth as in prior years. Based on historical growth, enrollment is expected to grow 5.1% in SFY 2018 before levelling off to around 3% a year by SFY 2021. Two key points must be noted related to the projected growth. First, as projections are extended, in this case reporting out 4 years, the confidence level decreases. Second, the growth reflected is an aggregate of all Program Aid Categories (PACs), but this growth is not evenly distributed amount PACs. The largest source of enrollment growth, Family Planning, is among the least expensive PACs on a per-member basis. This means that the budget is predicted to grow less aggressively. For example, a predicted 5.1% increase in enrollment from fiscal year 2017 to fiscal year 2018 corresponds with only 3.7% projected growth in expenses.

### ***Division of Health Service Regulation (DHSR)***

- The continued moratorium on the licensing of Special Care Units in Adult Care Homes and Home Care agencies that want to offer in-home Aide services could reduce fee collections.
- Potential federal budget cuts could impact the Survey and Certification (Medicare) grant award for DHSR. The funding level for this grant in FFY17 is unknown at this time.
- DHSR is requesting 28 positions as part of an expansion request to fully staff the Adult Care Section and the Acute & Home Care Section. These additional positions will assist DHSR meeting federal and state survey/inspection requirements.
- If there are budget cuts to federal agencies, there could be negative impacts on DHSR programs funded (in whole or in part) with Federal grants/funds. Funding cuts may necessitate grant award reductions. This may necessitate the elimination of positions if grants are reduced. As a result, health and safety inspections and complaint investigations of Medicare and Medicaid participating providers such as nursing homes, hospitals, home health agencies, hospices, dialysis facilities, etc. may not be completed as required by federal law. The funding level for the Medicare Survey & Certification grant in FFY17 is unknown at this time.
- DHSR is moving to replace seven legacy IT systems. The General Assembly has approved a budget of \$6.7 million to begin the development of the new DHSR system, however, additional funding is needed to build and maintain the system.
- DHSR has a one-year no-cost extension for its Criminal Background check grant. The goal of this grant is to improve the criminal background check process for employees and providers of healthcare services who are required to have background checks for staff. DHSR needs to find a recurring source of funds for the operations and maintenance of this system.

- The overall aging of the population in the United States as well as NC will increase the need for health care facilities that DHSR regulates, resulting in more health and safety inspections and complaint investigations.
- Medicaid reform and the move to a Managed Care Organization/Accountable Care Organization (MCO/ACO) model of care could have an impact on healthcare delivery with an unknown impact on the licensure process.
- Session Law 2013-413/House Bill 74 requires the Department to perform ongoing rules reviews every ten years of the Division's rules. This has a significant impact on DHSR. DHSR requires significant resources (personnel, time, and funding) to address the requirements of the review as well as manage the additional workload that results from the review. Failure to comply with the law will result in the expiration of rules. The Division reviews all new rules during the year as they are proposed. Existing rules are subject to a review process every ten years to determine if they should be repealed or modified. Review of old rules by DHSR's program sections are staggered throughout the ten-year cycle due to the large volume of existing rules.

#### ***Division of Mental Health/Developmental Disabilities and Substance Abuse Services***

- Session Law 2014-241 Section 12F.2 (d) required DMA to transfer \$30 million in funds to the Division of Mental Health to offset the reduction in single stream funding. The section stated that the funds shall be allocated as prescribed by June 30 of each fiscal year.

#### ***Division of State Operated Healthcare Facilities***

- In the SFY 2015/2016 Conference Report, the General Assembly eliminated the General Fund appropriations in the three Alcohol and Drug Abuse Treatment Centers (ADATCs) of the Division of State Operated Healthcare Facilities (within the Division of Mental Health). This recurring reduction of \$37 million converted the ADATCs to 100% receipt supported, and required the Local Management Entity/Managed Care Organizations (LME/MCO) to purchase inpatient alcohol and substance abuse treatment services from the ADATCs at 100% of the same amount for SFY 15-16. The requirement for the LME/MCO's during SFY 16-17 is that a minimum of 90% of the allocation be used exclusively to purchase inpatient alcohol and substance abuse treatment services from the ADATCs.

#### ***Division of Child Development and Early Education (DCDEE)***

- The General Assembly authorized an additional recurring \$1,325,000 expansion funds for the NC Pre-K program in SFY 16-17. These funds will be used to serve an estimated additional 250 children in the NC Pre-K program, bringing the total number of slots to over 27,000.
- The General Assembly authorized an additional recurring \$1,325,000 expansion funds for the Child Care Subsidy program in SFY 16-17. These funds will be used to serve an estimated additional 260 children in the Child Care Subsidy program.
- Funding for the Subsidized Child Care Program for SFY 16-17 was increased by \$3,450,000 to allow for market rate increases to be implemented in Tier 1 and Tier 2 counties, based on the 2015 Child Care Market Rate Survey. In SFY 15-16, rates for infants and toddlers in three- to five-star rated child care centers and three- to five-star rated child care homes in Tier 1 and Tier 2 counties increased. Beginning October 1, 2016, the Division increased the child care subsidy market rates to the



rates recommended by the 2015 Child Care Market Rate Study from age three through five years in three-, four-, and five-star-rated child care centers and homes in Tier 1 and Tier 2 counties.

- The Child Care and Development Fund (CCDF) was reauthorized in November 2014, resulting in changes to CCDF federal regulations. There are new requirements for how the Division will spend CCDF quality funds. Instead of a 4% quality set-aside plus earmarked activities, there will be a 7% quality set-aside with an additional infant/toddler set aside added in subsequent years. DCDEE will need to adjust for this in the upcoming SFY 16-17 CCDF block grant plan.
- NC's Race to the Top/Early Learning Challenge grant, which DCDEE oversees, has a no cost extension from its initial end date of December 31, 2015. The grant ended on December 31, 2016 with a liquidation period of 90 days.
- The SFY 16-17 budget bill authorized DCDEE creating ten receipt supported (CCDF) positions for criminal background checks, enhanced training, and improved fraud prevention and detection. This will enable DCDEE to implement increased CCDF requirements resulting from reauthorization.

### ***Division of Social Services (DSS)***

- Foster Care was expanded to provide services to children who reach the age of 21 (previously 18 years of age), with an increase of \$1,000,000 in funds beginning SFY16-17.
- Funds were allotted to support a demonstration project with services provided by Youth Villages to improve outcomes for youths transitioning from foster care in the amount of \$1.75 million for SFY 16-17. The intent of the General Assembly is to fund and support transitional living services to provide positive outcomes for youth and attract funding from the private sector that will lead to evidence-based programs to serve the at risk population of transitioning foster care youth.
- In order to meet Federal United States Department of Agriculture (USDA) Supplemental Nutrition Assistance Program/Food and Nutrition Service (SNAP/FNS) program standards and established Performance Improvement Plans, the program will be challenged with maintaining FNS application timeliness (95%) and accuracy rates (94% or greater) based on federal averages. Next year, USDA has indicated that it will be redefining accuracy rates. The Department risks a financial penalty or potential loss of approximately \$75 million to \$80 million in FNS Administrative Funding for not achieving USDA timeliness measures. The Department risks a financial penalty of up to \$1 million in FNS Administrative Funding for not achieving USDA payment accuracy rate.
- The federal SNAP work and education requirement was suspended in 2008 under an approved waiver during an economic recession with rising unemployment rates. The waiver exemption ended on January 1, 2016 for 23 mostly urban counties across the state, including Wake, Durham and Mecklenburg. The NC Legislature acted last year to restore the FNS/SNAP work and education requirement statewide for the remaining 77 counties starting July 1, 2016. The change affects 115,000 North Carolinians who will have to document work, volunteer or education activities or lose their food stamp benefits. Recipients can still get up to three months of benefits without meeting the requirement; however, the focus of service in coming years will be on expanding the FNS Employment & Training Program.

***Division of Public Health***

- The Division of Public Health received a \$1,000,000 recurring appropriation for the State Public Health Laboratory to be utilized to partially offset increased Newborn Screening testing costs and decreased Medicaid receipts. In addition, the Newborn Screening fee was increased from \$24 to \$44 generating \$2,400,000. A shortfall does remain in operating costs.
- The Children's Developmental Services Agencies received nonrecurring appropriations of \$1,250,000 in order to partially offset an anticipated decrease in Medicaid receipts in SFY 2016-17.
- Public Health was provided \$14,800,000 in non-recurring appropriations to support Local Health Department's operations and minimize the impact of decreased Medicaid reimbursement rates on the delivery of direct client services.
- \$477,500 in recurring state appropriations were appropriated by the General Assembly to detect, prevent and control the Zika Virus in North Carolina. This is a new service. Authority to establish three Full Time Equivalents (FTEs) is authorized as well as the distribution of \$177,500 to counties.
- \$250,000 is authorized in non-recurring funds for the You Quit Two Quit smoking cessation program indicating an emphasis on infant mortality. This is a smoking cessation and prevention program for pregnant and postpartum women and mothers. In addition, two receipt-supported positions were authorized to support the efforts to reduce infant mortality.

***Office of Rural Health***

- The Joint Conference Committee Report on the Base, Capital and Expansion Budgets for House Bill 1030 provides \$200,000 in nonrecurring funds for NC MedAssist, a pharmacy program that provides access to prescription medications, patient support, advocacy and related services to indigent and uninsured North Carolina residents. This office is reported within the Division of Central Administration.





# FINANCIAL STATEMENTS

**North Carolina Department of Health and Human Services**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit A-1**

	<b>General Fund</b>	<b>Other Governmental Funds (1)</b>	<b>Total Governmental Funds 2016</b>	<b>Total Governmental Funds 2015 (Restated)</b>
<b>ASSETS</b>				
Cash and Cash Equivalents (Note 2)	\$ 108,749,457	\$ 57,663,690	\$ 166,413,147	\$ 257,494,945
Receivables:				
Accounts Receivable, Net (Note 4)	83,564,214	669,147	84,233,361	86,911,839
Intergovernmental Receivables (Note 4)	810,925,370	1,352,591	812,277,961	863,144,948
Due from Other Funds	2,171,660	238,789	2,410,449	316,028
Inventories	10,591,948	31,838	10,623,786	10,946,503
Total Assets	1,016,002,649	59,956,055	1,075,958,704	1,218,814,263
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 1,016,002,649	\$ 59,956,055	\$ 1,075,958,704	\$ 1,218,814,263
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 83,821,765	\$ 11,167,991	\$ 94,989,756	\$ 79,502,000
Intergovernmental Payables (Note 6)	229,631,404	163,232	229,794,636	229,400,761
Medical Claims Payable (Note 7)	962,392,195	125,322	962,517,517	890,913,768
Due to Other State Agencies and Funds	18,678,344	3,819	18,682,163	8,249,609
Due to State of North Carolina Component Units	1,363,495	1,359	1,364,854	137,324,273
Other Liabilities		4,197	4,197	11,196
Total Liabilities	1,295,887,203	11,465,920	1,307,353,123	1,345,401,607
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	5,429,574	556	5,430,130	8,528,404
<b>FUND BALANCES</b>				
Nonspendable	10,591,948	31,838	10,623,786	10,946,503
Restricted for Health and Human Services	67,407,444	1,258,837	68,666,281	160,216,155
Committed to Health and Human Services	16,198,573	60,320,743	76,519,316	56,725,488
Assigned to Health and Human Services	3,766,681	1,115,490	4,882,171	5,214,939
Unassigned	(383,278,774)	(14,237,329)	(397,516,103)	(368,218,833)
Total Fund Balances	(285,314,128)	48,489,579	(236,824,549)	(135,115,748)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 1,016,002,649	\$ 59,956,055	\$ 1,075,958,704	\$ 1,218,814,263

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

(1) See Note 1 and Exhibits P-1 through P-6

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit A-2**

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2016	Total Governmental Funds 2015
<b>REVENUES</b>				
Federal Funds	\$ 13,237,849,040	\$ 64,058,917	\$ 13,301,907,957	\$ 13,366,321,662
Local Funds	149,438,252	23,430	149,461,682	148,646,879
Sales and Services, Net	58,453,363	2,399,708	60,853,071	61,700,748
Fees, Licenses, and Fines (Note 11)	183,991,268	4,585,849	188,577,117	176,145,268
Revenues from Other State Agencies (Note 12)	86,952,410	65,126,881	152,079,291	120,475,770
Miscellaneous Revenues	125,463,340	999,386	126,462,726	100,558,290
Total Revenues	13,842,147,673	137,194,171	13,979,341,844	13,973,848,617
<b>EXPENDITURES</b>				
Personal Services	992,545,257	40,592,809	1,033,138,066	1,013,194,821
Contracted Personal Services	306,798,210	26,042,331	332,840,541	326,368,845
Supplies and Materials	52,019,335	1,566,976	53,586,311	57,144,820
Travel	7,761,935	210,147	7,972,082	8,010,940
Communication	9,514,857	394,980	9,909,837	10,749,781
Utilities	16,257,502	64,962	16,322,464	17,297,275
Data Processing Services	22,173,550	1,944	22,175,494	18,193,834
Other Services	12,744,520	1,041,610	13,786,130	14,247,338
Other Fixed Charges	16,513,811	793,253	17,307,064	14,292,118
Capital Outlay	21,215,178	35,456,291	56,671,469	40,757,465
Grants, State Aid, and Subsidies (Exhibit D-1)	16,945,179,299	4,872,614	16,950,051,913	17,146,264,339
Expenditures to Other State Agencies (Note 12)	175,358,122		175,358,122	132,104,570
Other Expenditures	43,272,510	2,602,091	45,874,601	49,147,417
Total Expenditures	18,621,354,086	113,640,008	18,734,994,094	18,847,773,563
Excess of Revenues Over (Under) Expenditures	(4,779,206,413)	23,554,163	(4,755,652,250)	(4,873,924,946)
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	4,837,156,439		4,837,156,439	5,010,775,878
Transfers In (Note 13 & Exhibit Q-1)	441,157,126	4,309,493	445,466,619	426,452,209
Transfers Out (Note 13 & Exhibit Q-1)	(439,956,216)	(5,510,403)	(445,466,619)	(426,452,209)
Transfers to State Reserve Fund	(185,248,059)		(185,248,059)	
Other	1,950,069	85,000	2,035,069	(745,702)
Total Other Financing Sources (Uses)	4,655,059,359	(1,115,910)	4,653,943,449	5,010,030,176
Net Change in Fund Balances	(124,147,054)	22,438,253	(101,708,801)	136,105,230
Fund Balances - Beginning of Year	(161,167,074)	26,051,326	(135,115,748)	(271,220,978)
Fund Balances - End of Year	\$ (285,314,128)	\$ 48,489,579	\$ (236,824,549)	\$ (135,115,748)

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

(1) See Note 1 and Exhibits P-1 through P-6



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization** - The North Carolina Department of Health and Human Services (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department's accounts and transactions are included in the State of North Carolina's *Comprehensive Annual Financial Report* as a part of the State's General Fund and Other Governmental Funds.

For the purposes of these financial statements, the Department is reporting information for the following individual divisions:

**Central Administration** – This division provides overall support to the Department including, but not limited to, the following offices: controller, budget and analysis, general counsel, human resources, internal audit, privacy and security, procurement, property and construction, and communications.

**Medical Assistance** – This division administers and manages the state's Medicaid and Health Choice programs. Medicaid is a health insurance program for low-income individuals and families who cannot afford health care costs. Health Choice provides funding to extend health care coverage to low-income children not eligible for Medicaid.

**Child Development and Early Education (Child Development)** – This division implements quality standards for child care and increases access to families and their children across the state. The division also includes any remaining activity of the Office of Educational Services.

**Health Service Regulation** – This division provides regulatory oversight and remedial activities to assure state licensed and federally certified providers maintain compliance with state and federal laws governing the quality of health care rendered to recipients.

**Public Health** – This division promotes disease prevention and health services and administers programs that protect communities from communicable diseases, epidemics, and contaminated food and water.

**Aging and Adult Services (Aging)** – This division serves as an advocate for older adults and people with disabilities and their families, as well as residents in long-term care facilities.

**Services for the Blind/Deaf and Hard of Hearing (Blind/Deaf Services)** – This division provides assistance for people who are visually impaired, blind, deaf, hard of hearing, or deaf-blind. The services provided include training, employment, community services, independent living skills, medical, and technology.

**Vocational Rehabilitation** – This division provides counseling, training, education, transportation, job placement, assistive technology, and other support services to people with disabilities.

**Social Services** – This division provides guidance and technical assistance to agencies that provide direct services related to poverty, family violence, and exploitation of vulnerable individuals, children, and their families. The division also includes the disability determination activity.

**Mental Health/Developmental Disabilities and Substance Abuse Services (Mental Health)** – This division provides support for individuals with intellectual and/or developmental disabilities and treatment for individuals with mental illness and substance abuse disorders. The division also includes the activity of the 14 mental health facilities that are operated by the Department.

**Health Benefits** – This division was created per House Bill 372 [Session Law 2015-245 Section 10] to implement the reform of the state's current Medicaid and Health Choice programs. The division is currently under the transformation milestones and will eventually eliminate the Division of Medical Assistance.

- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Department is a part of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the Department. The Department's accounts and transactions are included in the State's *Comprehensive Annual Financial Report* as part of the State's governmental funds.

- C. Basis of Presentation** – The Department's records are maintained on a cash basis throughout the year, but adjustments are made at the end of the fiscal year to convert to GAAP as applicable to governmental entities. The financial statements are prepared according to GAAP as follows:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the Department. Because the Department is not a separate legal or reporting entity, government-wide financial statements are not prepared.

The Department reports only one major fund, the General Fund, displayed in a separate column. The General Fund is the Department's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

All remaining governmental funds are aggregated and reported as non-major funds in a separate column labeled "Other Governmental Funds". The Other Governmental Funds are Special Revenue Funds and Capital Projects Funds. Special Revenue Funds account for the proceeds of specific revenue sources (other than special assessments or capital projects) that are legally restricted to expenditures for specified purposes. Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities.

- D. Measurement Focus and Basis of Accounting** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Generally, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Exceptions are federal revenues accrued for the matching share of the Medicaid Claims Payable, which the Department considers to be available if they are collected within 12 months after year-end. Expenditures are recorded when a liability is incurred, except for compensated absences which are recognized as expenditures when payment is due. Pension contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

Since capital asset and long-term liability accounts relating to governmental funds are reported only at the statewide level, these amounts are not included in the financial statements of the Department. However, these amounts are reported in the Notes to the Financial Statements.

The preparation of financial statements, in conformity with GAAP, requires management of the Department to make estimates and judgments that affect the reported amounts of assets, liabilities, and deferred inflows of resources, and the disclosures and contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Actual results could differ from those estimates. Should actual results differ from those estimates,

changes will flow through the financial statements during the year of change and will be disclosed, if material.

- E. **Budgetary Control** – The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the original budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend more than was originally certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the final authorized budget amounts.
- F. **Cash and Cash Equivalents** – This classification includes deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash and may also withdraw cash at any time without prior notice or penalty.
- G. **Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3.
- H. **Receivables** – Accounts receivable represents amounts that have arisen during the ordinary course of business and are recorded net of estimated uncollectable amounts.

For the Division of Mental Health, accounts receivable primarily consists of patient accounts receivable, which are unbilled (in-house patients, inpatients discharged but not final billed, and outpatients not final billed) and billed amounts. Payment of these charges comes primarily from Managed Care payors, Medicare, Medicaid and, to a lesser extent, the patient. These amounts are recorded in the financial statements net of contractual allowances and allowances for bad debt to determine the net realizable value of accounts receivable. The allowances recorded for these accounts are used to determine the net patient accounts receivable and are calculated based on the historical collection rates realized for the payor.

Intergovernmental receivables include amounts due from the federal government and county and local governments. All amounts are considered collectible and therefore, no allowance for doubtful accounts is recorded.

- I. **Due from Other Funds and Due to Other State Agencies and Funds** – Activities between the Department's funds or State agencies are composed of amounts due from or to other funds of the Department or State agencies. All amounts are considered collectible and therefore, no allowance for doubtful accounts is recorded.



- J. Inventories** – Inventories, consisting of medical supplies, pharmaceuticals, and other general supplies, are valued at cost using the first-in, first-out, method. Inventories are recorded as expenditures when consumed rather than when purchased.
- K. Deferred Inflows of Resources** – In addition to liabilities, the Department reports deferred inflows of resources, which represent an acquisition of fund balance applicable to a future period that will not be recognized as revenue until that time. The Department has unavailable revenues that qualify for reporting in this category. The Department reports unavailable revenues primarily from the following sources: sales and services and fees, licenses, and fines.
- L. Fund Balance** – Fund balance for governmental funds is reported in the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent.

Nonspendable fund balances include amounts that cannot be spent because they represent inventories that are not available for appropriation and are not expendable available financial resources.

Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the N.C. General Assembly, the state's highest level of decision-making authority. The N.C. General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

Assigned fund balances are constrained by an intent to be used for specific purposes, but are neither restricted nor committed. The Office of State Budget and Management (OSBM) is authorized to assign unexpended funds at year-end as a carry forward of budget authority to the subsequent fiscal year. The North Carolina Constitution (Article III, Sec. 5(3)) provides that the "budget as enacted by the General Assembly shall be administered by the Governor." The Governor has delegated the authority to perform certain powers and duties of this role as the Director of the Budget to OSBM.

Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted or committed to those purposes.

The Department considers an expenditure to be made from the most restrictive resource (i.e., restricted, committed, assigned, and unassigned

in that order) when more than one fund balance classification is available for use.

**M. Revenues and Expenditures from/to Other State Agencies** – Revenues and expenditures from/to other State agencies represent funds that the Department obtains from or transfers to other agencies, institutions, or entities within the State of North Carolina. These transfers are not considered other financing sources or uses per GAAP, nor are they considered interfund transfers. These revenues and expenditures are eliminated at the statewide reporting level in the State's *Comprehensive Annual Financial Report*.

**N. Patient Service Revenue** – For the Division of Mental Health, sales and services revenue primarily consists of patient services, which is recorded at established rates and includes all charges for unbilled (in-house patients, inpatients discharged but not final billed, and outpatients not final billed) and billed amounts for services during the fiscal year. The difference between established rates and the estimated amount collectible is recognized as revenue deductions at year-end and deducted from gross patient service revenue to report service revenue at net realizable value. Revenue deductions consist of contractual allowances and allowances for bad debt.

Differences between the amounts paid for services under third party reimbursement programs and established rates are accounted for as contractual adjustments.

Patient service revenue also includes retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded as final settlements are determined.

In addition to the revenue deductions above, patient service revenue is reported net of certain third party reimbursement programs in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances for the Division of Mental Health. The Division of Medical Assistance, funded through state appropriations, is responsible for providing the non-federal share of the State Medicaid Program, whether paid to the Division of Mental Health or Managed Care Organizations. Funding from the State Medicaid Program and corresponding non-federal share are recorded as federal funds and transfers from the Division of Medical Assistance, respectively, in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances for the Division of Mental Health. To the extent that revenues from these programs are used to satisfy patient service charges, the Department has presented a deduction to patient service revenue. See Note 10 for further information regarding the revenue and deductions.

## NOTE 2 - DEPOSITS AND INVESTMENTS

Unless specifically exempt, the Department is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong

to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository under the Department's name and the responsibility of monitoring collateralization rests with each depository. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the Department to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2016, the Department's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

At June 30, 2016, the Balance Sheet reported cash and cash equivalents of \$166,413,147 which represents the Department's equity position in the State Treasurer's Short-Term Investment portfolio (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

### **NOTE 3 - FAIR VALUE MEASUREMENTS**

To the extent available, the Department's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques

and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

**Short-Term Investment Fund** - At year-end, all of the Department's investments valued at \$166,413,147 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

#### NOTE 4 - RECEIVABLES

Accounts receivable as of June 30, 2016 were as follows:

	Gross Receivable	Less Allowance for Doubtful Accounts	Net Receivable
<b>Accounts Receivable:</b>			
Medical Assistance	\$ 172,111,812	\$ 119,301,788	\$ 52,810,024
Child Development	488,741		488,741
Health Service Regulation	820,151		820,151
Public Health	6,315,894	677,931	5,637,963
Blind/Deaf Services	444,019	1,224	442,795
Social Services	18,594,012	13,483,564	5,110,448
Mental Health	176,153,934	157,504,435	18,649,499
Other	288,798	15,058	273,740
<b>Total Accounts Receivable</b>	<b>\$ 375,217,361</b>	<b>\$ 290,984,000</b>	<b>\$ 84,233,361</b>

For the Division of Medical Assistance, accounts receivable primarily consists of cost settlement, bed assessments, drug rebates, and provider overpayments. For the Division of Mental Health, accounts receivable primarily consists of patient services including reimbursements from Medicaid, Medicare, commercial insurance carriers, and managed care organizations.

Intergovernmental receivables at June 30, 2016 were as follows:

	Amount
<b>Intergovernmental Receivables:</b>	
Due from Federal Agencies:	
Department of Health and Human Services	\$ 773,748,471
Department of Agriculture	30,044,102
Department of Education	4,703,033
Social Security Administration	1,467,662
Other	910,256
Due from County and Local Agencies	<u>1,404,437</u>
<b>Total Intergovernmental Receivables</b>	<u><u>\$ 812,277,961</u></u>

#### NOTE 5 - CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported as expenditures in governmental funds. Consequently, capital asset balances are not reported on the face of the fund financial statements.

Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The Department capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater.

Depreciation and amortization are recorded at the statewide level, and are computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

## NOTES TO THE FINANCIAL STATEMENTS

A summary of changes in the capital assets for the year ended June 30, 2016 is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 1,140,272	\$ 5,769	\$ 22,517	\$ 1,123,524
Construction in Progress	234,535,699	22,163,891	2,245,822	254,453,768
Computer Software in Development	322,973,706	58,163,895	7,343,709	373,793,892
<b>Total Capital Assets, Nondepreciable</b>	<b>558,649,677</b>	<b>80,333,555</b>	<b>9,612,048</b>	<b>629,371,184</b>
Capital Assets, Depreciable:				
Buildings	522,030,909	2,379,447	37,938,998	486,471,358
Machinery and Equipment	98,155,082	17,234,443	4,513,597	110,875,928
General Infrastructure	81,088,238	1,989,745	13,017,397	70,060,586
Computer Software	253,711,526	34,881,323		288,592,849
<b>Total Capital Assets, Depreciable</b>	<b>954,985,755</b>	<b>56,484,958</b>	<b>55,469,992</b>	<b>956,000,721</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	151,579,703	8,902,423	10,215,598	150,266,528
Machinery and Equipment	50,655,785	5,618,187	3,172,760	53,101,212
General Infrastructure	30,343,027	1,693,063	6,229,722	25,806,368
Computer Software	15,696,547	10,148,461		25,845,008
<b>Total Accumulated Depreciation/Amortization</b>	<b>248,275,062</b>	<b>26,362,134</b>	<b>19,618,080</b>	<b>255,019,116</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>706,710,693</b>	<b>30,122,824</b>	<b>35,851,912</b>	<b>700,981,605</b>
<b>Capital Assets, Net</b>	<b>\$ 1,265,360,370</b>	<b>\$ 110,456,379</b>	<b>\$ 45,463,960</b>	<b>\$ 1,330,352,789</b>

### NOTE 6 - INTERGOVERNMENTAL PAYABLES

Intergovernmental payables include amounts due to federal agencies and North Carolina counties, primarily for administration of Department programs. Intergovernmental payables as of June 30, 2016 were as follows:

	Amount
Intergovernmental Payables:	
Due to Federal Agencies:	
Department of Health and Human Services	\$ 102,454,825
Department of Agriculture	429,025
Department of Education	1,265,643
Social Security Administration	158,166
Other	31,641
Due to North Carolina Counties	125,455,336
<b>Total Intergovernmental Payables</b>	<b>\$ 229,794,636</b>

### NOTE 7 - MEDICAL CLAIMS PAYABLE

The Department annually estimates medical claims payable which represent amounts owed to providers for medical services incurred by Medicaid

recipients in the current fiscal year but not yet submitted for reimbursement as of June 30th. This liability is also known as Incurred But Not Reported (IBNR).

The medical claims liability balance also includes amounts due based upon specifically identified provider accounts.

The Medicaid claims payable is offset by an intergovernmental receivable of approximately 66%, reimbursed by the U.S. Department of Health and Human Services, the Centers for Medicare and Medicaid Services.

## NOTE 8 - LONG-TERM LIABILITIES

General long-term liabilities are not recognized in governmental funds until they become due. Consequently, general long-term liabilities not yet due are not reported on the face of the fund financial statements. The Department's net pension liability and compensated absences are the only significant general long-term liabilities of the Department.

**A. Net Pension Liability** - The net pension liability represents the Department's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the Department's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14, Pension Plans, for further information regarding the Department's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

**B. Compensated Absences** - The Department's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Department has no obligation to pay sick leave upon termination or



retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

A summary of changes in long-term liabilities is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Net Pension Liability	\$ 57,701,520	\$ 123,952,576	\$ 0	\$ 181,654,096	\$ 0
Compensated Absences	92,645,320	60,569,127	63,162,809	90,051,638	8,897,100
<b>Total Long-Term Liabilities</b>	<b>\$ 150,346,840</b>	<b>\$ 184,521,703</b>	<b>\$ 63,162,809</b>	<b>\$ 271,705,734</b>	<b>\$ 8,897,100</b>

#### NOTE 9 - OPERATING LEASE OBLIGATIONS

The Department entered into operating leases for office space, communications, computers, and other equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	\$ 13,571,306
2018	8,257,950
2019	5,116,914
2020	1,783,648
2021	679,976
2022 - Beyond	391,874
<b>Total Minimum Lease Payments</b>	<b>\$ 29,801,668</b>

Rental expense for all operating leases during the year was \$18,766,657.

#### NOTE 10 - PATIENT SERVICE REVENUE – MENTAL HEALTH FACILITIES

**Medicare:** The Division of Mental Health healthcare facilities (Facilities) are reimbursed for patient services under the provisions of a prospective payment system. Under the prospective payment system, payment is made at predetermined rates for treating various diagnoses and performing procedures that have been grouped into defined diagnosis-related groups applicable to each patient. The difference in the standard facility charge and the payment for such services is reflected as an adjustment from patient service revenue.

**Medicaid:** Medicaid reimburses patient services on an interim basis under a prospective payment system using fee schedules and per diem rates as its basis. A settlement is made at year-end to adjust from the interim reimbursement to a cost-based reimbursement basis. The Division of Medical Assistance receives the Medicaid reimbursements and transfers the funds to the Division of Mental Health. Such Medicaid funding is eliminated at the



Division of Medical Assistance and recorded at the Division of Mental Health where the charges for services originated.

In addition, the Facilities also receive disproportionate share hospital payments, which are special payments for hospitals which serve a disproportionate share of uninsured and low income patients.

**Commercial/Managed Care Payor Agreements:** The Facilities have entered into reimbursement agreements with certain commercial insurance carriers and managed care organizations to accept patients on a discounted fee for service basis. The basis for reimbursement under these agreements includes fee schedules and per diem rates. In general, the commercial payments for patient services are subject to deductibles and co-payments that are the patient's responsibility. Insurance plans may reimburse their subscribers but make direct payment to the Facilities on an assignment of benefits basis as long as a contract remains in force.

The majority of patients are enrolled with one of the managed care organizations (MCO). The MCOs receive Medicaid funding through the Division of Medical Assistance based on the number of patients enrolled. The MCOs reimburse the Facilities for patient services. Such Medicaid funding is eliminated at the Division of Medical Assistance and recorded at the Division of Mental Health where the charges for services originated.

A summary of the Division of Mental Health's net patient service revenue within the general fund (presented as sales and services on Exhibit N-2) for the year ended June 30, 2016 is presented as follows:

	2016
Gross Patient Service Revenue	<u>\$ 740,771,935</u>
Deduct:	
Contractual Adjustments:	
Contractual Allowances	23,575,758
Disproportionate Share Hospital	(159,959,471)
Bad Debt	263,519,054
Third Party Reimbursement Programs:	
Federal Funds - State Medicaid Program	153,116,915
Federal Funds - Managed Care Organizations	215,994,453
Transfers - Non-Federal Share from DMA	<u>188,121,977</u>
Net Patient Service Revenue	<u><u>\$ 56,403,249</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 11 - FEES, LICENSES, AND FINES REVENUE

Fees, licenses, and fines for the fiscal year ended June 30, 2016 were as follows:

	Medical Assistance	Child Development	Health Service Regulation	Public Health	Blind/Deaf Services	Mental Health	Other	Total
Business License Fees	\$ 0	\$ 1,155,166	\$ 8,740,753	\$ 4,405,972	\$ 0	\$ 565,790	\$ 0	\$ 14,867,681
Non-Business Permit License Fees				2,262,651			357,408	2,620,059
Certification Fees			126,991	474,741				601,732
Inspection and Examination Fees				2,065,790				2,065,790
Fines, Penalties, and Assessment Fees	2,903,375	16,000	4,095,300	360,235		763		7,375,673
Registration Fees	2,811	72,307	99,071	7,819		925	35,772	218,705
Other Licenses, Fees, and Permits		738,157	3,827,354	1,330,185	4,003,490	1,861		9,901,047
Cost Recoveries	121,273,882							121,273,882
Intermediate Care Facility Assessments	28,069,230							28,069,230
Provider Enrollment Fees	1,579,327							1,579,327
Miscellaneous		49,741	4,130			25	702,375	756,271
Civil Fines and Penalties - Transfers		(18,892)	(443,145)	(289,619)		(624)		(752,280)
<b>Total Fees, Licenses, and Fines</b>	<b>\$ 153,828,625</b>	<b>\$ 2,012,479</b>	<b>\$ 16,450,454</b>	<b>\$ 10,617,774</b>	<b>\$ 4,003,490</b>	<b>\$ 568,740</b>	<b>\$ 1,095,555</b>	<b>\$ 188,577,117</b>

### NOTE 12 - REVENUES AND EXPENDITURES FROM/TO OTHER STATE AGENCIES

The revenues and expenditures from/to other state agencies by entity at June 30, 2016 are as follows:

#### Revenues from Other State Agencies:

Other State Agencies	Central Administration	Child Development	Public Health	Blind/Deaf Services	Vocational Rehabilitation	Mental Health	Other	Total
State General Fund	\$ 2,017,242	\$ 0	\$ 0	\$ 0	\$ 2,779,000	\$ 25,346,000	\$ 0	\$ 30,142,242
Office of State Budget and Management		78,252,110		10,590,588		58,163		88,900,861
Department of Public Safety							335,911	335,911
Department of Transportation			1,242,925		253,681		20,955	1,517,561
Department of State Treasurer	128,819	5,207	321,976			23,797,747		24,253,749
Administrative Office of the Courts			785,099					785,099
Department of Information Technology	1,653,059							1,653,059
Department of Environmental Quality			232,444					232,444
State Health Plan			258,197					258,197
Department of Public Instruction						3,000,168		3,000,168
NC Education Lottery						1,000,000		1,000,000
<b>Total Revenues</b>	<b>\$ 3,799,120</b>	<b>\$ 78,257,317</b>	<b>\$ 2,840,641</b>	<b>\$ 10,590,588</b>	<b>\$ 3,032,681</b>	<b>\$ 53,202,078</b>	<b>\$ 356,866</b>	<b>\$ 152,079,291</b>

#### Expenditures to Other State Agencies:

Other State Agencies	Central Administration	Medical Assistance	Health Service Regulation	Aging	Vocational Rehabilitation	Social Services	Mental Health	Total
Office of State Controller	\$ 39,158	\$ 147,465,847	\$ 1,647,431	\$ 0	\$ 57,757	\$ 0	\$ 56,035	\$ 149,266,228
Department of Administration	2,298,711	239,479		169,710	428,131	88,366	3,286,850	6,511,247
Department of Public Instruction		17,623,813						17,623,813
Department of Information Technology	1,000,000							1,000,000
Department of Transportation					216,602			216,602
Department of Commerce						666,758		666,758
Office of Administrative Hearings						73,474		73,474
<b>Total Expenditures</b>	<b>\$ 3,337,869</b>	<b>\$ 165,329,139</b>	<b>\$ 1,647,431</b>	<b>\$ 169,710</b>	<b>\$ 702,490</b>	<b>\$ 828,598</b>	<b>\$ 3,342,885</b>	<b>\$ 175,358,122</b>

**NOTE 13 - INTERFUND TRANSFERS**

Transfers in/out of other funds for the fiscal year ended June 30, 2016 consisted of the following:

	Transfers In			Total
	General Fund	Special Revenue Fund	Capital Projects Fund	
<u>Transfers Out</u>				
General Fund	\$ 436,456,218	\$ 3,499,998	\$ 0	\$ 439,956,216
Special Revenue Fund	4,700,908	554,074		5,254,982
Capital Projects Fund			255,421	255,421
<b>Total Transfers</b>	<b>\$ 441,157,126</b>	<b>\$ 4,054,072</b>	<b>\$ 255,421</b>	<b>\$ 445,466,619</b>

Transfers are primarily used to (1) transfer revenues and bond proceeds from the fund required by State statute or budget to collect the revenue to the fund required by State statute or budget to expend them, (2) provide revenues collected in the General Fund to finance operating and capital programs accounted for in other funds or divisions in accordance with budgetary authorizations, and (3) reflect reversions of State funds from other funds to the General Fund in accordance with Office of State Budget and Management or legislative requirements.

Intrafund transfers have been included in the amounts above. These were not eliminated due to the user interest in transfers at the division level. Intrafund transfers were \$436,456,218 for General Fund, \$554,074 for Special Revenue Fund, and \$255,421 for Capital Projects Fund. Intrafund transfers, for the purposes of these financial statements, are defined as those transfers that occur within the same fund, inclusive of those transfers that are between divisions in the same fund. See Exhibit Q-1 for a disaggregation of these transfers by division.

**NOTE 14 - PENSION PLANS****Defined Benefit Plan**

Pension contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net pension liability, discussed in Note 8 to the financial statements, is not reported on the face to the fund financial statements.

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain

proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% 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. General employee 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. General employee 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 general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Department's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The Department's contributions to the pension plan were \$67,761,005, and employee contributions were \$44,443,446 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the *2015 Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2016, the Department's proportionate share of the collective net pension liability was \$181,654,096. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Department's proportion of the net pension liability was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Department's proportion was 4.93%, which was an increase of 0.01 from its proportion measured as of June 30, 2014.

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

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

The actuarial assumptions used in the December 31, 2014 valuations 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. 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.

*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 those 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 Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the

discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 546,728,700	\$ 181,654,096	\$ (128,084,150)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the Department's proportionate share of the collective pension expense was \$19,479,162. At June 30, 2016, the Department's proportionate share of the collective deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 20,654,070
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		19,680,684
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	5,945,813	
Contributions Subsequent to the Measurement Date	67,761,005	
Total	\$ 73,706,818	\$ 40,334,754

The Department's deferred outflows of resources related to pensions of \$67,761,005 represents a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts of deferred outflows of resources and deferred inflows of resources related to pensions included in the pension expense are as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2017	\$ (21,873,736)
2018	(21,873,736)
2019	(21,249,029)
2020	30,607,560
Total	\$ (34,388,941)



**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Benefits** - The Department participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the Department contributed 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The Department made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$41,471,216, \$40,266,619, and \$38,939,359, respectively. The Department assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The Department participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General



Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the Department made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, was 0.41% and .44%, respectively. The Department made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$3,036,285, \$3,007,161, and \$3,172,837, respectively. The Department assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

## **NOTE 16 - RISK MANAGEMENT**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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.

### **A. Employee Benefit Plans**

#### **1. State Health Plan**

Department employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

#### **2. Death Benefit Plan of North Carolina**

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

### **B. Other Risk Management and Insurance Activities**

#### **1. Automobile, Fire, and Other Property Losses**

The Department is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State.

Such coverage is provided at no cost to the Department for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The Department pays premiums to the North Carolina Department of Insurance for the coverage.

## **2. Public Officers' and Employees' Liability Insurance**

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The Department pays the premium, based on a composite rate, directly to the private insurer.

## **3. Employee Dishonesty and Computer Fraud**

The Department is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Department is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

## **4. Statewide Workers' Compensation Program**

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Department's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Department is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Department retains the risk for workers' compensation.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

## **5. Professional Liability Insurance for State Medical Personnel**

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services to

provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health/Developmental Disabilities and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of \$1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services purchases commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

#### NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Federal Grants** - The Department receives significant financial assistance from the federal government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the Department. As of June 30, 2016, the Department is unable to estimate what liabilities may result from such audits.

For the fiscal years 2011-2013, the Department received more than \$34.8 million in unallowable performance bonus payments under the Children's Health Insurance Program Reauthorization Act. The overpayments were the result of the overstatement of the enrollment numbers in their request. Once a final determination of the liability is made, the amount will be paid to Centers for Medicaid Services (CMS).

In October 2016, the Office of the Inspector General issued a report regarding school-based Medicaid administrative costs. The report indicated that for federal fiscal years 2010-2012, claims were not in compliance with federal requirements for allocating costs to Medicaid and lacked proper approval of the cost allocation plan by the U.S. Department of Health and Human Services. The Department is unable to estimate what liability may result from this audit. Once a final determination of the liability is made, the amount will be paid to CMS.

- B. Commitments** - As of June 30, 2016, the Department had commitments of \$46,901,742 related to construction and improvements of state government facilities, primarily held by the Division of Mental Health.
- C. Other Contingencies** - The Civil Rights Division of the U.S. Department of Justice investigated the state's mental health system and found the State to be in violation of Title II of the Americans with Disabilities Act of 1990 (ADA), 42 U.S.C. Sec 12131, and the following, as interpreted by

the U.S. Supreme Court in *Olmstead v. L.C.*, 527 U.S. 581 (1999), and Section 504 of the Rehabilitation Act of 1973 (Rehab Act), 29 U.S.C. Sec 794(a). On August 23, 2012, the Civil Rights Division and the State entered into an agreement that addresses the corrective measures that will ensure that the State will willingly meet the requirements of the ADA, Section 504 of the Rehab Act, and the *Olmstead* decision. Through the agreement, it is intended that the goals of community integration and self-determination will be achieved. The State is responsible for determining and identifying the amount of appropriation funding that is needed to fulfill this agreement which will be phased in over eight years (2013-2020). In House Bill 950 [Session Law 2012-142 Section 10.23A.(e)], \$10.3 million was appropriated as recurring funds to support the Department of Health and Human Services in the implementation of its plan for transitioning individuals with severe mental illness to community living arrangements, including establishing a rental assistance program. In Senate Bill 402 [Session Law 2013-360], additional money was appropriated in the expansion budget for \$3.83 million for 2013-14 and \$9.39 million for 2014-15. Both parties of the agreement have selected a reviewer to monitor the State's implementation of this agreement. The reviewer will have full authority to independently assess, review, and report annually on the State's implementation of and compliance with the provisions of this agreement. The potential liability to the State cannot be reasonably estimated. If the State fails to comply with this agreement, the United States can seek an appropriate judicial remedy. To date, the State has demonstrated good faith effort in the early stage of the settlement agreement by providing sufficient funding essential to the initial development of the services.

In House Bill 97 [Session Law 2015-241], the North Carolina Housing Finance Agency, in consultation with the Department of Health and Human Services (DHHS), was authorized to administer the Community Living Housing Fund in order to provide permanent community-based housing in integrated settings appropriate for individuals with severe mental illness and severe and persistent mental illness. DHHS transferred \$2.89 million to the Community Living Housing Fund in 2014-15. House Bill 1030 authorized the North Carolina Housing Finance Agency to expend receipts of \$5.52 million transferred from the Department of Health and Human Services to the Community Living Housing Fund in 2016-17.

#### **NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2016, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.



# **REQUIRED SUPPLEMENTARY INFORMATION**

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit B-1**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants	\$ 12,128,874,645	\$ 12,440,942,436	\$ 11,526,950,109	\$ (913,992,327)
Local Grants	675,880,458	763,909,646	738,009,028	(25,900,618)
Provider Match	350,840,878	363,191,121	315,860,639	(47,330,482)
Local Match and Program Income	10,031,755	10,205,912	9,966,865	(239,047)
Sales, Services, and Rentals	69,374,925	70,390,638	58,928,396	(11,462,242)
Fees, Licenses, and Fines	777,885,671	785,179,687	771,610,975	(13,568,712)
Contributions and Donations	132,400	132,400	95,875	(36,525)
Investment Income			672,419	672,419
Miscellaneous	(119,573,100)	(112,269,765)	(91,745,439)	20,524,326
Total Revenues	13,893,447,632	14,321,682,075	13,330,348,867	(991,333,208)
<b>EXPENDITURES</b>				
Personal Services	1,094,410,029	1,046,860,039	984,120,670	62,739,369
Purchased Services	351,470,627	410,371,908	343,878,448	66,493,460
Supplies	64,995,413	67,518,977	51,481,416	16,037,561
Property, Plant, and Equipment	28,965,632	25,614,955	17,714,674	7,900,281
Other Expenditures and Adjustments	20,672,748	33,117,731	33,689,794	(572,063)
Aid and Public Assistance	17,661,109,087	18,081,108,450	16,944,034,009	1,137,074,441
Reserves	27,894,466	32,087,462		32,087,462
Total Expenditures	19,249,518,002	19,696,679,522	18,374,919,011	1,321,760,511
Excess of Revenues Over (Under) Expenditures	(5,356,070,370)	(5,374,997,447)	(5,044,570,144)	330,427,303
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	5,126,486,911	5,126,486,911	4,837,156,439	(289,330,472)
Transfers from Other Departments or Funds	661,489,982	897,152,798	837,000,598	(60,152,200)
Transfers to Other Departments or Funds	(431,906,523)	(648,642,262)	(629,586,893)	19,055,369
Total Other Financing Sources	5,356,070,370	5,374,997,447	5,044,570,144	(330,427,303)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	896,661,244
Payables	(1,295,887,203)
Deferred Inflows	(5,429,574)
Total Basis Differences	(404,655,533)
<b>Other Adjustments:</b>	
Cash	108,749,457
Inventories	10,591,948
Fund Balance (GAAP Basis) June 30, 2016	\$ (285,314,128)



# **COMBINING FINANCIAL STATEMENTS BY DIVISION**



**North Carolina Department of Health and Human Services**  
**Combining Balance Sheet**  
**By Division - Governmental Funds**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

	Central Administration (1)	Medical Assistance (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)
<b>ASSETS</b>					
Cash and Cash Equivalents (Note 2)	\$ 36,207,019	\$ 46,061,452	\$ 480,788	\$ 23,965,893	\$ 2,032,350
Receivables:					
Accounts Receivable, Net (Note 4)	4,021	52,810,024	488,741	820,151	5,637,963
Intergovernmental Receivables (Note 4)	11,160,326	646,289,199	29,050,266	1,253,230	29,364,898
Due from Other Funds	408,870	1,460,708		1,897	7,824
Inventories	5,074,840				
Total Assets	52,855,076	746,621,383	30,019,795	26,041,171	37,043,035
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 52,855,076	\$ 746,621,383	\$ 30,019,795	\$ 26,041,171	\$ 37,043,035
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities					
Accounts Payable	\$ 5,445,950	\$ 29,903,704	\$ 912,105	\$ 942,015	\$ 14,821,700
Intergovernmental Payables (Note 6)	8,965,188	94,093,066	34,500,834	89,505	11,440,708
Medical Claims Payable (Note 7)		951,283,331			251,578
Due to Other State Agencies and Funds	4,566,694	7,577,283	244,836	280,546	1,085,262
Due to State of North Carolina Component Units			149,416	57,300	828,696
Other Liabilities					
Total Liabilities	18,977,832	1,082,857,384	35,807,191	1,369,366	28,427,944
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	3,460	0	5,034	708,933	498,844
<b>FUND BALANCES</b>					
Nonspendable	5,074,840				
Restricted for Health and Human Services		40,860,800	462,215	18,755,381	6,057,782
Committed to Health and Human Services	10,183,643		449,111	5,210,512	2,056,644
Assigned to Health and Human Services	3,766,681				
Unassigned	14,848,620	(377,096,801)	(6,703,756)	(3,021)	1,821
Total Fund Balances	33,873,784	(336,236,001)	(5,792,430)	23,962,872	8,116,247
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 52,855,076	\$ 746,621,383	\$ 30,019,795	\$ 26,041,171	\$ 37,043,035

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

- (1) See Exhibit E-1
- (2) See Exhibit F-1
- (3) See Exhibit G-1
- (4) See Exhibit H-1
- (5) See Exhibit I-1
- (6) See Exhibit J-1
- (7) See Exhibit K-1
- (8) See Exhibit L-1
- (9) See Exhibit M-1
- (10) See Exhibit N-1
- (11) See Exhibit O-1

**Exhibit C-1**

<b>Aging (6)</b>	<b>Blind/ Deaf Services (7)</b>	<b>Vocational Rehabilitation (8)</b>	<b>Social Services (9)</b>	<b>Mental Health (10)</b>	<b>Health Benefits (11)</b>	<b>Total Governmental Funds 2016</b>	<b>Total Governmental Funds 2015 (Restated)</b>
\$ 0	\$ 16,173,727	\$ 2,779,000	\$ 3,831,734	\$ 34,881,184	\$ 0	\$ 166,413,147	\$ 257,494,945
201	442,795	269,518	5,110,448	18,649,499		84,233,361	86,911,839
4,050,901	446,876	2,541,952	74,232,342	13,887,971		812,277,961	863,144,948
			440,763	90,387		2,410,449	316,028
				5,548,946		10,623,786	10,946,503
4,051,102	17,063,398	5,590,470	83,615,287	73,057,987		1,075,958,704	1,218,814,263
0	0	0	0	0	0	0	0
<u>\$ 4,051,102</u>	<u>\$ 17,063,398</u>	<u>\$ 5,590,470</u>	<u>\$ 83,615,287</u>	<u>\$ 73,057,987</u>	<u>\$ 0</u>	<u>\$ 1,075,958,704</u>	<u>\$ 1,218,814,263</u>
\$ 207,795	\$ 612,832	\$ 2,991,845	\$ 3,444,168	\$ 35,003,447	\$ 704,195	\$ 94,989,756	\$ 79,502,000
6,882,769	5,595	243,674	73,288,886	284,411		229,794,636	229,400,761
	336,278	374,273	1,052,127	9,219,930		962,517,517	890,913,768
18,918	77,531	299,946	1,808,973	2,665,687	56,487	18,682,163	8,249,609
11,666			545	286,262	30,969	1,364,854	137,324,273
				4,197		4,197	11,196
7,121,148	1,032,236	3,909,738	79,594,699	47,463,934	791,651	1,307,353,123	1,345,401,607
0	0	333	91,899	4,121,627	0	5,430,130	8,528,404
				5,548,946		10,623,786	10,946,503
	23,961		1,442,140	1,064,002		68,666,281	160,216,155
	16,159,578	2,779,000	1,985,084	37,695,744		76,519,316	56,725,488
	8,704			1,106,786		4,882,171	5,214,939
(3,070,046)	(161,081)	(1,098,601)	501,465	(23,943,052)	(791,651)	(397,516,103)	(368,218,833)
(3,070,046)	16,031,162	1,680,399	3,928,689	21,472,426	(791,651)	(236,824,549)	(135,115,748)
<u>\$ 4,051,102</u>	<u>\$ 17,063,398</u>	<u>\$ 5,590,470</u>	<u>\$ 83,615,287</u>	<u>\$ 73,057,987</u>	<u>\$ 0</u>	<u>\$ 1,075,958,704</u>	<u>\$ 1,218,814,263</u>

**North Carolina Department of Health and Human Services**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**By Division - Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

	Central Administration (1)	Medical Assistance (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)
<b>REVENUES</b>					
Federal Funds	\$ 109,349,098	\$ 8,461,684,819	\$ 373,670,085	\$ 29,729,391	\$ 460,536,335
Local Funds	725,803			487,954	22,433,980
Sales and Services, Net				430,403	1,182,957
Fees, Licenses, and Fines (Note 11)	703,125	153,828,625	2,012,479	16,450,454	10,617,774
Revenues from Other State Agencies (Note 12)	3,799,120		78,257,317	335,911	2,840,641
Miscellaneous Revenues	2,565,129	12,781,960	4,794		85,435,592
Total Revenues	117,142,275	8,628,295,404	453,944,675	47,434,113	583,047,279
<b>EXPENDITURES</b>					
Personal Services	65,754,073	27,536,715	17,320,894	40,756,357	118,120,909
Contracted Personal Services	79,279,740	121,517,543	4,616,572	2,845,876	35,727,401
Supplies and Materials	992,238	105,398	81,625	240,893	7,804,582
Travel	320,544	205,303	387,270	1,857,555	1,980,703
Communication	1,505,417	341,097	177,108	578,501	2,213,957
Utilities	3,196,022			68,228	189,946
Data Processing Services	20,390,727		1,457,379	10,835	153,271
Other Services	608,508	396,098	449,843	351,951	3,552,702
Other Fixed Charges	7,249,283	1,285,431	146,961	310,196	2,060,386
Capital Outlay	4,462,815	262,236	559,404	1,268,284	6,150,502
Grants, State Aid, and Subsidies (Exhibit D-1)	23,860,145	11,731,149,199	638,431,169	5,870,300	528,362,867
Expenditures to Other State Agencies (Note 12)	3,337,869	165,329,139		1,647,431	
Other Expenditures	3,154,441	794,280	3,944,399	1,367,942	8,122,448
Total Expenditures	214,111,822	12,048,922,439	667,572,624	57,174,349	714,439,674
Excess of Revenues Over (Under) Expenditures	(96,969,547)	(3,420,627,035)	(213,627,949)	(9,740,236)	(131,392,395)
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	93,707,647	3,503,925,211	226,298,914	15,367,244	135,806,584
Transfers In (Note 13 & Exhibit Q-1)	25,692,381	159,741,900		1,959,107	13,243,471
Transfers Out (Note 13 & Exhibit Q-1)	(14,585,940)	(238,380,857)	(5,684,121)	(2,659,107)	(10,776,242)
Transfers to State Reserve Fund	(3,125,290)	(112,720,747)	(478,688)	(673,832)	(2,126,659)
Other	67	(19,667)	85,000		40,254
Total Other Financing Sources	101,688,865	3,312,545,840	220,221,105	13,993,412	136,187,408
Net Change in Fund Balances	4,719,318	(108,081,195)	6,593,156	4,253,176	4,795,013
Fund Balances - Beginning of Year	29,154,466	(228,154,806)	(12,385,586)	19,709,696	3,321,234
Fund Balances - End of Year	\$ 33,873,784	\$ (336,236,001)	\$ (5,792,430)	\$ 23,962,872	\$ 8,116,247

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

- (1) See Exhibit E-2
- (2) See Exhibit F-2
- (3) See Exhibit G-2
- (4) See Exhibit H-2
- (5) See Exhibit I-2
- (6) See Exhibit J-2
- (7) See Exhibit K-2
- (8) See Exhibit L-2
- (9) See Exhibit M-2
- (10) See Exhibit N-2
- (11) See Exhibit O-2

**Exhibit C-2**

<b>Aging (6)</b>	<b>Blind/ Deaf Services (7)</b>	<b>Vocational Rehabilitation (8)</b>	<b>Social Services (9)</b>	<b>Mental Health (10)</b>	<b>Health Benefits (11)</b>	<b>Total Governmental Funds 2016</b>	<b>Total Governmental Funds 2015</b>
\$ 50,905,708	\$ 16,565,276	\$ 86,641,897	\$ 3,271,474,486	\$ 441,350,862	\$ 0	\$ 13,301,907,957	\$ 13,366,321,662
9,803,983	476,006	2,777,846	110,869,674	1,886,436		149,461,682	148,646,879
	864,734	436,754		57,938,223		60,853,071	61,700,748
35,022	4,003,490		357,408	568,740		188,577,117	176,145,268
	10,590,588	3,032,681	20,955	53,202,078		152,079,291	120,475,770
120,425	270,570	3,393,358	15,847,571	6,043,327		126,462,726	100,558,290
<u>60,865,138</u>	<u>32,770,664</u>	<u>96,282,536</u>	<u>3,398,570,094</u>	<u>560,989,666</u>	<u>0</u>	<u>13,979,341,844</u>	<u>13,973,848,617</u>
5,244,460	18,476,536	54,747,117	60,743,144	623,944,570	493,291	1,033,138,066	1,013,194,821
1,787,629	3,529,186	1,911,172	36,403,284	43,266,517	1,955,621	332,840,541	326,368,845
21,082	210,164	714,082	349,884	43,054,840	11,523	53,586,311	57,144,820
157,391	651,834	995,163	851,611	559,300	5,408	7,972,082	8,010,940
31,142	257,937	1,299,609	1,339,459	2,165,610		9,909,837	10,749,781
	19,655	370,723		12,477,890		16,322,464	17,297,275
	20,121		143,022	139		22,175,494	18,193,834
25,244	634,000	325,338	5,756,634	1,655,554	30,258	13,786,130	14,247,338
24,243	67,313	185,581	1,043,460	4,931,750	2,460	17,307,064	14,292,118
31,240	769,012	546,281	537,379	42,006,010	78,306	56,671,469	40,757,465
97,337,348	10,620,126	60,579,869	3,471,205,283	382,635,607		16,950,051,913	17,146,264,339
169,710		702,490	828,598	3,342,885		175,358,122	132,104,570
121,670	1,320,295	4,821,932	2,971,763	19,253,152	2,279	45,874,601	49,147,417
<u>104,951,159</u>	<u>36,576,179</u>	<u>127,199,357</u>	<u>3,582,173,521</u>	<u>1,179,293,824</u>	<u>2,579,146</u>	<u>18,734,994,094</u>	<u>18,847,773,563</u>
<u>(44,086,021)</u>	<u>(3,805,515)</u>	<u>(30,916,821)</u>	<u>(183,603,427)</u>	<u>(618,304,158)</u>	<u>(2,579,146)</u>	<u>(4,755,652,250)</u>	<u>(4,873,924,946)</u>
43,107,882	7,134,742	35,394,741	178,733,748	594,775,074	2,904,652	4,837,156,439	5,010,775,878
255,934	4,858,035	68,429	12,003,287	223,550,187	4,093,888	445,466,619	426,452,209
(136,092)	(5,564,931)	(2,522,145)	(3,879,167)	(161,278,017)		(445,466,619)	(426,452,209)
(144,138)			(215,336)	(60,552,324)	(5,211,045)	(185,248,059)	
		3,876		1,925,539		2,035,069	(745,702)
<u>43,083,586</u>	<u>6,427,846</u>	<u>32,944,901</u>	<u>186,642,532</u>	<u>598,420,459</u>	<u>1,787,495</u>	<u>4,653,943,449</u>	<u>5,010,030,176</u>
(1,002,435)	2,622,331	2,028,080	3,039,105	(19,883,699)	(791,651)	(101,708,801)	136,105,230
<u>(2,067,611)</u>	<u>13,408,831</u>	<u>(347,681)</u>	<u>889,584</u>	<u>41,356,125</u>	<u>0</u>	<u>(135,115,748)</u>	<u>(271,220,978)</u>
<u>\$ (3,070,046)</u>	<u>\$ 16,031,162</u>	<u>\$ 1,680,399</u>	<u>\$ 3,928,689</u>	<u>\$ 21,472,426</u>	<u>\$ (791,651)</u>	<u>\$ (236,824,549)</u>	<u>\$ (135,115,748)</u>

**North Carolina Department of Health and Human Services**  
**Combining Schedule of Grants, State Aid, and Subsidies Expenditures**  
**By Division**  
**For the Fiscal Year Ended June 30, 2016**

	Central Administration	Medical Assistance (1)	Child Development (2)	Health Service Regulation
<b>GRANTS, STATE AID, AND SUBSIDIES</b>				
Medical Assistance:				
Managed Care	\$ 0	\$ 2,496,912,303	\$ 0	\$ 0
Supplemental Expenditures		2,265,144,113		
Skilled Nursing Facilities and Personal Care		1,335,757,788		
Physician Services		1,420,416,442		
Medical Services		1,416,790,741		
Hospital		860,539,454		
Pharmacy Services (Net of Rebates)		744,256,301		
Buy-In/Dual Eligible Expenditures		777,312,812		
Dental		382,355,194		
Other Medical Assistance		31,664,051		
Total Medical Assistance	0	11,731,149,199	0	0
Social Service Programs:				
Food and Nutrition				
Child and Family			515,114,254	
Smart Start Programs			123,316,915	
Support of Aging and Adult Programs				
Support of Medicaid Programs				
Other Social Service Programs				
Total Social Service Programs	0	0	638,431,169	0
Public Health Programs:				
Communicable Diseases				
General Public Health				
Chronic Diseases				
Other Public Health Programs				
Total Public Health Programs	0	0	0	0
Mental Health Programs	0	0	0	0
Other Grants, State Aid, and Subsidies	23,860,145	0	0	5,870,300
Total Grants, State Aid, and Subsidies Expenditures	\$ 23,860,145	\$ 11,731,149,199	\$ 638,431,169	\$ 5,870,300

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

- (1) See supplementary Exhibit F-5
- (2) See supplementary Exhibit G-4
- (3) See supplementary Exhibit I-4
- (4) See supplementary Exhibit M-4
- (5) See supplementary Exhibit N-4

**Exhibit D-1**

<b>Public Health (3)</b>	<b>Aging</b>	<b>Blind/Deaf Services</b>	<b>Vocational Rehabilitation</b>	<b>Social Services (4)</b>	<b>Mental Health (5)</b>	<b>Total Governmental Funds</b>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,496,912,303
						2,265,144,113
						1,335,757,788
						1,420,416,442
						1,416,790,741
						860,539,454
						744,256,301
						777,312,812
						382,355,194
						31,664,051
0	0	0	0	0	0	11,731,149,199
353,001,441				2,397,678,801		2,750,680,242
73,562,933				549,697,151		1,138,374,338
						123,316,915
				148,962,326		148,962,326
				228,464,902		228,464,902
				146,402,103		146,402,103
426,564,374	0	0	0	3,471,205,283	0	4,536,200,826
74,862,359						74,862,359
19,241,971						19,241,971
4,331,411						4,331,411
3,362,752						3,362,752
101,798,493	0	0	0	0	0	101,798,493
0	0	0	0	0	382,635,607	382,635,607
0	97,337,348	10,620,126	60,579,869	0	0	198,267,788
<u>\$ 528,362,867</u>	<u>\$ 97,337,348</u>	<u>\$ 10,620,126</u>	<u>\$ 60,579,869</u>	<u>\$ 3,471,205,283</u>	<u>\$ 382,635,607</u>	<u>\$ 16,950,051,913</u>



# **FINANCIAL STATEMENTS BY DIVISION**

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Central Administration**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit E-1**

	General Fund	Capital Projects Fund	Total Central Administration 2016	Total Central Administration 2015 (Restated)
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 35,024,353	\$ 1,182,666	\$ 36,207,019	\$ 31,700,137
Receivables:				
Accounts Receivable, Net	4,021		4,021	292,778
Intergovernmental Receivables	11,160,326		11,160,326	4,432,778
Due from Other Funds	408,870		408,870	173,716
Inventories	5,074,840		5,074,840	4,878,856
Total Assets	51,672,410	1,182,666	52,855,076	41,478,265
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 51,672,410	\$ 1,182,666	\$ 52,855,076	\$ 41,478,265
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 5,386,504	\$ 59,446	\$ 5,445,950	\$ 1,311,008
Intergovernmental Payables	8,965,188		8,965,188	7,620,864
Due to Other State Agencies and Funds	4,566,694		4,566,694	3,175,486
Total Liabilities	18,918,386	59,446	18,977,832	12,107,358
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	3,460	0	3,460	216,441
<b>FUND BALANCES</b>				
Nonspendable	5,074,840		5,074,840	4,878,856
Restricted for Health and Human Services				1,560,139
Committed to Health and Human Services	9,002,977	1,180,666	10,183,643	7,582,188
Assigned to Health and Human Services	3,766,681		3,766,681	3,859,183
Unassigned	14,906,066	(57,446)	14,848,620	11,274,100
Total Fund Balances	32,750,564	1,123,220	33,873,784	29,154,466
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 51,672,410	\$ 1,182,666	\$ 52,855,076	\$ 41,478,265

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



**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

**Division of Central Administration**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit E-2**

	General Fund	Capital Projects Fund	Total Central Administration 2016	Total Central Administration 2015
<b>REVENUES</b>				
Federal Funds	\$ 109,349,098	\$ 0	\$ 109,349,098	\$ 107,484,978
Local Funds	725,803		725,803	447,263
Sales and Services, Net				58,404
Fees, Licenses, and Fines	703,125		703,125	663,634
Revenues from Other State Agencies	2,524,301	1,274,819	3,799,120	1,653,059
Miscellaneous Revenues	2,565,129		2,565,129	681,200
Total Revenues	115,867,456	1,274,819	117,142,275	110,988,538
<b>EXPENDITURES</b>				
Personal Services	65,754,073		65,754,073	66,392,809
Contracted Personal Services	79,279,740		79,279,740	74,892,027
Supplies and Materials	992,238		992,238	1,487,324
Travel	320,544		320,544	580,719
Communication	1,505,417		1,505,417	2,537,178
Utilities	3,196,022		3,196,022	3,496,740
Data Processing Services	20,390,727		20,390,727	17,506,413
Other Services	608,508		608,508	1,110,249
Other Fixed Charges	7,249,283		7,249,283	5,270,144
Capital Outlay	4,265,764	197,051	4,462,815	3,557,774
Grants, State Aid, and Subsidies	23,860,145		23,860,145	24,166,284
Expenditures to Other State Agencies	3,337,869		3,337,869	2,360,516
Other Expenditures	3,154,441		3,154,441	3,325,165
Total Expenditures	213,914,771	197,051	214,111,822	206,683,342
Excess of Revenues Over (Under) Expenditures	(98,047,315)	1,077,768	(96,969,547)	(95,694,804)
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	93,707,647		93,707,647	91,859,176
Transfers In	25,692,381		25,692,381	23,065,408
Transfers Out	(14,584,543)	(1,397)	(14,585,940)	(14,451,943)
Transfers to State Reserve Fund	(3,125,290)		(3,125,290)	
Other	67		67	1,325
Total Other Financing Sources (Uses)	101,690,262	(1,397)	101,688,865	100,473,966
Net Change in Fund Balances	3,642,947	1,076,371	4,719,318	4,779,162
Fund Balances - Beginning of Year	29,107,617	46,849	29,154,466	24,375,304
Fund Balances - End of Year	\$ 32,750,564	\$ 1,123,220	\$ 33,873,784	\$ 29,154,466

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund (All Budget Codes)**  
**Division of Central Administration**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit E-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 15,935,274	\$ 18,437,936	\$ 16,665,302	\$ (1,772,634)
Title IV-D / Child Support	9,384,800	9,508,801	4,566,343	(4,942,458)
Other Federal Grants	38,152,860	38,591,611	25,259,615	(13,331,996)
Local Grants	1,778,717	2,389,835	2,261,689	(128,146)
Sales, Services, and Rentals	40,165	13,875		(13,875)
Fees, Licenses, and Fines			750	750
Miscellaneous Revenues	559,374	1,565,821	1,528,834	(36,987)
Total Revenues	65,851,190	70,507,879	50,282,533	(20,225,346)
EXPENDITURES				
Personal Services	67,896,781	64,077,628	58,408,002	5,669,626
Purchased Services	50,232,221	57,383,804	47,165,764	10,218,040
Supplies	1,375,240	1,636,644	1,213,221	423,423
Property, Plant, and Equipment	745,551	3,208,401	2,759,348	449,053
Other Expenditures and Adjustments	492,796	1,705,790	1,501,372	204,418
Aid and Public Assistance	25,807,867	29,668,285	23,485,228	6,183,057
Reserves	16,115,723	2,227,740		2,227,740
Total Expenditures	162,666,179	159,908,292	134,532,935	25,375,357
Excess of Revenues Over (Under) Expenditures	(96,814,989)	(89,400,413)	(84,250,402)	5,150,011
OTHER FINANCING SOURCES (USES)				
State Appropriations	99,783,101	99,800,937	93,707,647	(6,093,290)
Transfers from Other Departments or Funds	16,036,452	24,327,575	22,947,765	(1,379,810)
Transfers to Other Department or Funds	(19,004,564)	(34,728,099)	(32,405,010)	2,323,089
Total Other Financing Sources	96,814,989	89,400,413	84,250,402	(5,150,011)
Excess of Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	11,573,217
Payables	(18,918,386)
Deferred Inflows	(3,460)
Total Basis Differences	(7,348,629)
<b>Other Adjustments:</b>	
Cash	35,024,353
Inventories	5,074,840
Fund Balance (GAAP Basis) June 30, 2016	\$ 32,750,564

**North Carolina Department of Health and Human Services**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**

**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**

**Division of Central Administration ( Budget Code 24410 Only - Central Management IT Projects Fund )**

**For the Fiscal Year Ended June 30, 2016**

**Exhibit E-4**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants:				
Medical Assistance Administration and Training	\$ 68,867,852	\$ 98,234,379	\$ 55,859,789	\$ (42,374,590)
Other Federal Grants	5,525,015	5,639,191	1,550,982	(4,088,209)
Miscellaneous Revenues			103,260	103,260
Total Revenues	74,392,867	103,873,570	57,514,031	(46,359,539)
<b>EXPENDITURES</b>				
Personal Services	15,614,604	16,163,133	7,300,796	8,862,337
Purchased Services	71,235,493	115,711,368	63,388,239	52,323,129
Supplies	27,952	28,263	6,250	22,013
Property, Plant, and Equipment	10,862,655	10,893,345	1,223,108	9,670,237
Reserves	143,133	143,133		143,133
Other Expenditures and Adjustments	82,974	88,314	2,325	85,989
Total Expenditures	97,966,811	143,027,556	71,920,718	71,106,838
Excess of Revenues Over (Under) Expenditures	(23,573,944)	(39,153,986)	(14,406,687)	24,747,299
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Departments or Funds	23,696,422	24,386,608	22,196,516	(2,190,092)
Transfers to Other Department or Funds	(122,839)	(728,783)	(728,783)	
Total Other Financing Sources	23,573,583	23,657,825	21,467,733	(2,190,092)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (361)	\$ (15,496,161)	\$ 7,061,046	\$ 22,557,207

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Medical Assistance**  
**June 30, 2016 (With Comparative Amounts for June 30, 2015)**

**Exhibit F-1**

	General Fund	
	2016	2015
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 46,061,452	\$ 143,100,511
Receivables:		
Accounts Receivable, Net	52,810,024	52,363,075
Intergovernmental Receivables	646,289,199	731,505,128
Due from Other Funds	1,460,708	
Total Assets	746,621,383	926,968,714
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0
Total Assets and Deferred Outflows	\$ 746,621,383	\$ 926,968,714
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 29,903,704	\$ 23,433,809
Intergovernmental Payables	94,093,066	105,133,812
Medical Claims Payable	951,283,331	888,999,325
Due to Other State Agencies and Funds	7,577,283	232,301
Due to UNC Hospitals		137,324,273
Total Liabilities	1,082,857,384	1,155,123,520
<b>DEFERRED INFLOWS OF RESOURCES</b>	0	0
<b>FUND BALANCE</b>		
Restricted for Health and Human Services	40,860,800	140,828,873
Committed to Health and Human Services		289,479
Unassigned	(377,096,801)	(369,273,158)
Total Fund Balance	(336,236,001)	(228,154,806)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 746,621,383	\$ 926,968,714

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**

**Division of Medical Assistance**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Amounts for June 30, 2015)**

**Exhibit F-2**

	<b>General Fund</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Federal Funds	\$ 8,461,684,819	\$ 8,476,640,637
Fees, Licenses, and Fines	153,828,625	144,521,919
Miscellaneous Revenues	12,781,960	304,787
Total Revenues	<u>8,628,295,404</u>	<u>8,621,467,343</u>
<b>EXPENDITURES</b>		
Personal Services	27,536,715	25,546,355
Contracted Personal Services	121,517,543	123,064,565
Supplies and Materials	105,398	5,637
Travel	205,303	159,773
Communication	341,097	274,810
Other Services	396,098	228,337
Other Fixed Charges	1,285,431	151,079
Capital Outlay	262,236	67,485
Grants, State Aid, and Subsidies (Exhibit F-5)	11,731,149,199	11,777,715,348
Expenditures to Other State Agencies	165,329,139	125,321,293
Other Expenditures	794,280	2,236,750
Total Expenditures	<u>12,048,922,439</u>	<u>12,054,771,432</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,420,627,035)</u>	<u>(3,433,304,089)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	3,503,925,211	3,599,353,625
Transfers In	159,741,900	157,829,943
Transfers Out	(238,380,857)	(199,839,865)
Transfers to State Reserve Fund	(112,720,747)	
Other	(19,667)	(2,169,162)
Total Other Financing Sources	<u>3,312,545,840</u>	<u>3,555,174,541</u>
Net Change in Fund Balance	(108,081,195)	121,870,452
Fund Balance - Beginning of Year	<u>(228,154,806)</u>	<u>(350,025,258)</u>
Fund Balance - End of Year	<u>\$ (336,236,001)</u>	<u>\$ (228,154,806)</u>

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund (All Budget Codes)**  
**Division of Medical Assistance**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit F-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Program	\$ 8,726,343,981	\$ 8,903,171,547	\$ 8,392,790,803	\$ (510,380,744)
Medical Assistance Administration and Training	137,606,468	123,243,029	103,806,161	(19,436,868)
CHIP	432,567,366	431,765,366	391,856,790	(39,908,576)
Other Federal Grants	78,547,087	80,755,085	43,647,221	(37,107,864)
Provider Match	350,840,878	363,191,121	315,860,639	(47,330,482)
Investment Income			672,419	672,419
Sales, Services, and Rentals	261,948	261,948	23,539	(238,409)
Fees, Licenses, and Fines	751,645,971	757,192,086	745,689,753	(11,502,333)
Miscellaneous	(215,657,403)	(215,657,403)	(191,657,617)	23,999,786
Total Revenues	10,262,156,296	10,443,922,779	9,802,689,708	(641,233,071)
EXPENDITURES				
Personal Services	32,456,483	28,199,563	27,532,339	667,224
Purchased Services	120,617,283	129,590,548	126,100,794	3,489,754
Supplies	284,631	204,468	92,855	111,613
Property, Plant, and Equipment	411,474	406,874	254,479	152,395
Other Expenditures and Adjustments	989,989	2,086,737	2,065,461	21,276
Aid and Public Assistance	14,165,352,725	14,364,458,641	13,454,458,109	910,000,532
Reserves	280,735	8,958,854		8,958,854
Total Expenditures	14,320,393,320	14,533,905,685	13,610,504,037	923,401,648
Excess of Revenues Over (Under) Expenditures	(4,058,237,024)	(4,089,982,906)	(3,807,814,329)	282,168,577
OTHER FINANCING SOURCES (USES)				
State Appropriations	3,746,922,414	3,746,922,414	3,503,925,211	(242,997,203)
Transfers from Other Departments or Funds	509,312,173	691,013,392	637,256,374	(53,757,018)
Transfers to Other Departments or Funds	(197,997,563)	(347,952,900)	(333,367,256)	14,585,644
Total Other Financing Sources	4,058,237,024	4,089,982,906	3,807,814,329	(282,168,577)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	700,559,931
Payables	(1,082,857,384)
Total Basis Differences	(382,297,453)
<b>Other Adjustments:</b>	
Cash	46,061,452
Fund Balance (GAAP Basis) June 30, 2016	\$ (336,236,001)

Budgeted revenues and expenditures include funding of payments for hospital services provided to Medicaid and uninsured patients that are not reflected on the Statement of Revenues, Expenditures, and Changes in Fund Balance based on revenue recognition principles. This funding includes certified public expenditures and provider assessments that represent the state portion of these expenditures.

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Medical Assistance (Budget Code 24445 Only - Primarily Undispositioned Refunds)**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit F-4**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Fees, Licenses and Fines	\$ 0	\$ 0	\$ 2,811	\$ 2,811
Miscellaneous Revenues	233,811,100	233,811,100	205,150,426	(28,660,674)
Total Revenues	233,811,100	233,811,100	205,153,237	(28,657,863)
<b>EXPENDITURES</b>				
Purchased Services	0	140,000	138,626	1,374
Excess of Revenues Over (Under) Expenditures	233,811,100	233,671,100	205,014,611	(28,656,489)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Departments of Funds		1,232,011	1,232,011	
Transfers to Other Departments or Funds	(233,811,100)	(233,811,100)	(205,200,244)	28,610,856
Total Other Financing Uses	(233,811,100)	(232,579,089)	(203,968,233)	28,610,856
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 1,092,011	\$ 1,046,378	\$ (45,633)

**North Carolina Department of Health and Human Services**  
**Schedule of Grants, State Aid, and Subsidies Expenditures**  
**Division of Medical Assistance**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit F-5**

**GRANTS, STATE AID, AND SUBSIDIES**

Managed Care <sup>1</sup>	\$ 2,496,912,303
Supplemental Expenditures:	
Gap Payment - Upper Payment Limit	822,667,244
Gap Payment - Equity Payment	581,989,534
Disproportionate Share Hospital Payment	409,734,981
Enhanced Payment	450,752,354
Total Supplemental Expenditures	2,265,144,113
Skilled Nursing Facilities and Personal Care:	
Skilled Nursing Facilities	882,131,243
Personal Care Services	453,626,545
Total Skilled Nursing Facilities and Personal Care	1,335,757,788
Physician Services:	
Physician Services	1,006,501,729
Clinics	210,239,271
Community Care of NC (N3CN)	203,675,442
Total Physician Services	1,420,416,442
Medical Services:	
Client Assistant Program (CAP)	344,371,325
Equipment	217,178,488
Health Check	95,930,799
Transport	143,594,410
Short Term Care	135,819,913
Non-Physician Services	135,099,175
Standalone Lab/X-Ray	98,382,750
Hospice	68,484,661
Case Management	1,432,127
Medical - General	172,750,665
Family Planning	3,746,428
Total Medical Services	1,416,790,741
Hospital:	
Hospital - Outpatient	433,368,299
Hospital - Inpatient	49,934,414
Emergency Room	377,236,741
Total Hospital	860,539,454
Prescribed Drugs:	
Pharmacy Services	1,834,023,051
Less Rebates	(1,089,766,750)
Total Prescribed Drugs (Net of Rebates)	744,256,301
Buy-In/Dual Eligible Expenditures:	
Medicare Part A	48,163,308
Medicare Part B	445,817,265
Medicare Part D	283,332,239
Total Buy-In/Dual Eligible Expenditures	777,312,812
Dental	382,355,194
Other Medical Assistance:	
Health Information Technology Funding	31,544,350
Miscellaneous	119,701
Total Other Medical Assistance	31,664,051
Total Grants, State Aid, and Subsidies Expenditures	\$ 11,731,149,199

<sup>1</sup> Represents monthly payments made primarily to Managed Care Organizations (also known as Local Management Entities).



**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Child Development and Early Education**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit G-1**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total Child Development 2016</b>	<b>Total Child Development 2015</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 0	\$ 480,788	\$ 480,788	\$ 761,930
Receivables:				
Accounts Receivable	488,741		488,741	646,729
Intergovernmental Receivables	29,050,266		29,050,266	19,430,734
Total Assets	29,539,007	480,788	30,019,795	20,839,393
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0	0	0
Total Assets and Deferred Outflows	\$ 29,539,007	\$ 480,788	\$ 30,019,795	\$ 20,839,393
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 880,428	\$ 31,677	\$ 912,105	\$ 1,924,656
Intergovernmental Payables	34,500,834		34,500,834	31,241,488
Due to Other State Agencies and Funds	244,836		244,836	55,878
Due to State of North Carolina Component Units	149,416		149,416	
Total Liabilities	35,775,514	31,677	35,807,191	33,222,022
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	5,034	0	5,034	2,957
<b>FUND BALANCES</b>				
Restricted for Health and Human Services	462,215		462,215	
Committed to Health and Human Services		449,111	449,111	663,431
Unassigned	(6,703,756)		(6,703,756)	(13,049,017)
Total Fund Balances	(6,241,541)	449,111	(5,792,430)	(12,385,586)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 29,539,007	\$ 480,788	\$ 30,019,795	\$ 20,839,393

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

**Division of Child Development and Early Education**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit G-2**

	General Fund	Capital Projects Fund	Total Child Development 2016	Total Child Development 2015
<b>REVENUES</b>				
Federal Funds	\$ 373,670,085	\$ 0	\$ 373,670,085	\$ 370,014,815
Fees, Licenses, and Fines	2,012,479		2,012,479	1,958,991
Revenues from Other State Agencies	78,252,110	5,207	78,257,317	75,778,884
Miscellaneous Revenues	4,794		4,794	14,532
Total Revenues	453,939,468	5,207	453,944,675	447,767,222
<b>EXPENDITURES</b>				
Personal Services	17,320,894		17,320,894	17,398,944
Contracted Personal Services	4,616,572		4,616,572	6,572,699
Supplies and Materials	81,625		81,625	66,308
Travel	387,270		387,270	543,321
Communication	177,108		177,108	263,303
Data Processing Services	1,457,379		1,457,379	438,242
Other Services	449,843		449,843	170,742
Other Fixed Charges	146,961		146,961	66,157
Capital Outlay	254,877	304,527	559,404	347,255
Grants, State Aid, and Subsidies (Exhibit G-4)	638,431,169		638,431,169	638,435,907
Expenditures to Other State Agencies				474
Scholarships	3,499,043		3,499,043	3,407,089
Other Expenditures	445,356		445,356	393,255
Total Expenditures	667,268,097	304,527	667,572,624	668,103,696
Excess of Revenues Over (Under) Expenditures	(213,328,629)	(299,320)	(213,627,949)	(220,336,474)
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	226,298,914		226,298,914	217,264,044
Transfers Out	(5,684,121)		(5,684,121)	(5,810,801)
Transfers to State Reserve Fund	(478,688)		(478,688)	
Other		85,000	85,000	474
Total Other Financing Sources	220,136,105	85,000	220,221,105	211,453,717
Net Change in Fund Balances	6,807,476	(214,320)	6,593,156	(8,882,757)
Fund Balances - Beginning of Year	(13,049,017)	663,431	(12,385,586)	(3,502,829)
Fund Balances - End of Year	\$ (6,241,541)	\$ 449,111	\$ (5,792,430)	\$ (12,385,586)

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Child Development and Early Education**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit G-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child Care Development Funds	\$ 54,566,436	\$ 54,566,436	\$ 50,707,782	\$ (3,858,654)
TANF	163,784,224	163,784,224	164,188,274	404,050
Other Federal Grants	140,193,048	161,993,221	149,581,527	(12,411,694)
Sales, Services, and Rentals	44,929	44,929		(44,929)
Fees, Licenses, and Fines	2,089,399	2,132,421	1,982,951	(149,470)
Miscellaneous Revenues		264,397	318,958	54,561
Total Revenues	360,678,036	382,785,628	366,779,492	(16,006,136)
EXPENDITURES				
Personal Services	20,090,626	19,349,172	17,309,492	2,039,680
Purchased Services	4,550,037	8,667,204	7,491,120	1,176,084
Supplies	97,969	113,823	80,111	33,712
Property, Plant, and Equipment	37,555	311,470	254,877	56,593
Other Expenditures and Adjustments	120,248	434,209	423,169	11,040
Aid and Public Assistance	640,353,010	655,871,375	639,603,546	16,267,829
Reserves	1,290,287	1,553,684		1,553,684
Total Expenditures	666,539,732	686,300,937	665,162,315	21,138,622
Excess of Revenues Over (Under) Expenditures	(305,861,696)	(303,515,309)	(298,382,823)	5,132,486
OTHER FINANCING SOURCES (USES)				
State Appropriations	231,431,401	231,431,401	226,298,914	(5,132,487)
Transfers from Other Departments or Funds	78,252,110	78,765,181	78,765,181	
Transfers to Other Departments or Funds	(3,821,815)	(6,681,273)	(6,681,272)	1
Total Other Financing Sources	305,861,696	303,515,309	298,382,823	(5,132,486)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	29,539,007
Payables	(35,775,514)
Deferred Inflows	(5,034)
Total Basis Differences	(6,241,541)
Fund Balance (GAAP Basis) June 30, 2016	\$ (6,241,541)

**North Carolina Department of Health and Human Services**  
**Schedule of Grants, State Aid, and Subsidies Expenditures**  
**Division of Child Development and Early Education**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit G-4**

**GRANTS, STATE AID, AND SUBSIDIES**

Child and Family:

Subsidized Child Care Services	\$ 355,131,257
Pre-K Services	154,771,413
Race to the Top	<u>5,211,584</u>

Total Child and Family	<u>515,114,254</u>
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Smart Start Programs:

Smart Start Subsidized Child Care Services	18,572,026
Smart Start Child Care Related Activities	<u>104,744,889</u>

Total Smart Start Programs	<u>123,316,915</u>
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Total Grants, State Aid, and Subsidies Expenditures	<u><u>\$ 638,431,169</u></u>
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**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Health Service Regulation**  
**June 30, 2016 (With Comparative Amounts for June 30, 2015)**

**Exhibit H-1**

	<b>General Fund</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 23,965,893	\$ 19,546,136
Receivables:		
Accounts Receivable	820,151	405,398
Intergovernmental Receivables	1,253,230	1,534,199
Due from Other Funds	1,897	
Total Assets	26,041,171	21,485,733
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0
Total Assets and Deferred Outflows	\$ 26,041,171	\$ 21,485,733
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 942,015	\$ 1,350,857
Intergovernmental Payables	89,505	5,531
Due to Other State Agencies and Funds	280,546	249,475
Due to State of North Carolina Component Units	57,300	
Total Liabilities	1,369,366	1,605,863
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue	708,933	170,174
<b>FUND BALANCE</b>		
Restricted for Health and Human Services	18,755,381	15,417,580
Committed to Health and Human Services	5,210,512	2,702,140
Unassigned	(3,021)	1,589,976
Total Fund Balance	23,962,872	19,709,696
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 26,041,171	\$ 21,485,733

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**

**Division of Health Service Regulation**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Amounts for June 30, 2015)**

**Exhibit H-2**

	<b>General Fund</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Federal Funds	\$ 29,729,391	\$ 28,212,814
Local Funds	487,954	496,013
Sales and Services, Net	430,403	403,117
Fees, Licenses, and Fines	16,450,454	13,437,857
Revenues from Other State Agencies	335,911	335,911
Miscellaneous Revenues		508,798
Total Revenues	47,434,113	43,394,510
<b>EXPENDITURES</b>		
Personal Services	40,756,357	38,497,574
Contracted Personal Services	2,845,876	3,705,787
Supplies and Materials	240,893	187,882
Travel	1,857,555	1,785,821
Communication	578,501	527,076
Utilities	68,228	56,072
Data Processing Services	10,835	5,920
Other Services	351,951	414,994
Other Fixed Charges	310,196	388,988
Capital Outlay	1,268,284	1,578,265
Grants, State Aid, and Subsidies	5,870,300	5,260,323
Expenditures to Other State Agencies	1,647,431	2,177,558
Other Expenditures	1,367,942	1,386,489
Total Expenditures	57,174,349	55,972,749
Excess of Revenues Over (Under) Expenditures	(9,740,236)	(12,578,239)
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	15,367,244	14,667,679
Transfers In	1,959,107	2,269,343
Transfers Out	(2,659,107)	(3,121,217)
Transfers to State Reserve Fund	(673,832)	
Other		6,751
Total Other Financing Sources	13,993,412	13,822,556
Net Change in Fund Balance	4,253,176	1,244,317
Fund Balance - Beginning of Year	19,709,696	18,465,379
Fund Balance - End of Year	\$ 23,962,872	\$ 19,709,696

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund (All Budget Codes)**  
**Division of Health Service Regulation**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit H-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medicare	\$ 8,590,602	\$ 9,880,884	\$ 8,860,631	\$ (1,020,253)
Health Standard Quality Bureau	6,206,493	6,704,504	6,038,610	(665,894)
Medical Assistance Administration and Training	5,881,077	6,241,786	5,426,574	(815,212)
HRSA - Bioterrorism Hospital	13,607,456	13,607,456	6,640,227	(6,967,229)
Other	1,914,874	5,308,079	3,169,681	(2,138,398)
Local Grants	968,450	968,450	867,902	(100,548)
Sales, Services, and Rentals	513,129	513,129	403,892	(109,237)
Fees, Licenses, and Fines	10,132,373	12,114,926	13,367,370	1,252,444
Miscellaneous Revenues	1,967,676	1,290,820	1,307,300	16,480
Total Revenues	49,782,130	56,630,034	46,082,187	(10,547,847)
EXPENDITURES				
Personal Services	44,683,832	42,488,673	40,744,934	1,743,739
Purchased Services	8,515,915	10,244,905	7,629,224	2,615,681
Supplies	192,682	315,166	231,822	83,344
Property, Plant, and Equipment	1,141,894	2,657,493	1,319,604	1,337,889
Other Expenditures and Adjustments	2,014,033	1,378,909	2,536,969	(1,158,060)
Aid and Public Assistance	9,852,177	12,491,662	6,701,997	5,789,665
Reserves	25,049	1,284,488		1,284,488
Total Expenditures	66,425,582	70,861,296	59,164,550	11,696,746
Excess of Revenues Over (Under) Expenditures	(16,643,452)	(14,231,262)	(13,082,363)	1,148,899
OTHER FINANCING SOURCES (USES)				
State Appropriations	16,706,071	16,744,207	15,367,244	(1,376,963)
Transfers from Other Departments or Funds	1,427,141	1,870,147	2,301,729	431,582
Transfers to Other Departments or Funds	(1,489,760)	(4,383,092)	(4,586,610)	(203,518)
Total Other Financing Sources	16,643,452	14,231,262	13,082,363	(1,148,899)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	2,075,278
Payables	(1,369,366)
Deferred Inflows	(708,933)
Total Basis Differences	(3,021)
<b>Other Adjustments:</b>	
Cash	23,965,893
Fund Balance (GAAP Basis) June 30, 2016	\$ 23,962,872

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Health Service Regulation (Budget Code 24470 Only - Primarily Federal Fines and Penalties)**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit H-4**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Facilities Finance Act	\$ 819,925	\$ 874,041	\$ 484,134	\$ (389,907)
Federal Fines, Non-Reverting	620,832	244,570	3,602,062	3,357,492
Total Revenues	1,440,757	1,118,611	4,086,196	2,967,585
<b>EXPENDITURES</b>				
Purchased Services	21,000	36,000	1,340	34,660
Supplies	8,687	21,687		21,687
Capital Outlay	33,728	42,149	12,584	29,565
Other Expenditures and Adjustments	29,000	38,579		38,579
Total Expenditures	92,415	138,415	13,924	124,491
Excess of Revenues Over (Under) Expenditures	1,348,342	980,196	4,072,272	3,092,076
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Departments or Funds	234,443	316,883	246,000	(70,883)
Transfers to Other Departments or Funds	(1,582,800)	(1,297,094)	(836,904)	460,190
Total Other Financing Uses	(1,348,357)	(980,211)	(590,904)	389,307
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (15)	\$ (15)	\$ 3,481,368	\$ 3,481,383



**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Public Health**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit I-1**

	<b>General Fund</b>	<b>Other Special Revenue Fund</b>	<b>Total Public Health 2016</b>	<b>Total Public Health 2015</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 579	\$ 2,031,771	\$ 2,032,350	\$ 1,843,561
Receivables:				
Accounts Receivable, Net	5,619,030	18,933	5,637,963	1,254,814
Intergovernmental Receivables	29,347,251	17,647	29,364,898	28,688,875
Due from Other Funds	7,824		7,824	
Total Assets	34,974,684	2,068,351	37,043,035	31,787,250
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0	0	0
Total Assets and Deferred Outflows	\$ 34,974,684	\$ 2,068,351	\$ 37,043,035	\$ 31,787,250
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 14,810,114	\$ 11,586	\$ 14,821,700	\$ 16,458,680
Intergovernmental Payables	11,440,708		11,440,708	10,833,922
Medical Claims Payable	251,578		251,578	214,258
Due to Other State Agencies and Funds	1,085,141	121	1,085,262	630,475
Due to State of North Carolina Component Units	828,696		828,696	
Total Liabilities	28,416,237	11,707	28,427,944	28,137,335
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	498,844	0	498,844	328,681
<b>FUND BALANCES</b>				
Restricted for Health and Human Services	6,057,782		6,057,782	11,719
Committed to Health and Human Services		2,056,644	2,056,644	1,817,104
Unassigned	1,821		1,821	1,492,411
Total Fund Balances	6,059,603	2,056,644	8,116,247	3,321,234
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 34,974,684	\$ 2,068,351	\$ 37,043,035	\$ 31,787,250

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Division of Public Health**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit I-2**

	<b>General Fund</b>	<b>Other Special Revenue Fund</b>	<b>Capital Projects Fund</b>	<b>Total Public Health 2016</b>	<b>Total Public Health 2015</b>
<b>REVENUES</b>					
Federal Funds	\$ 460,536,335	\$ 0	\$ 0	\$ 460,536,335	\$ 485,682,660
Local Funds	22,410,550	23,430		22,433,980	20,764,184
Sales and Services, Net	1,182,957			1,182,957	1,176,272
Fees, Licenses, and Fines	10,037,226	580,548		10,617,774	9,692,144
Revenues from Other State Agencies	2,518,665		321,976	2,840,641	3,848,885
Miscellaneous Revenues:					
Rebates	80,329,580			80,329,580	70,986,031
Contributions, Gifts, and Grants	5,106,012			5,106,012	2,355,187
Total Revenues	582,121,325	603,978	321,976	583,047,279	594,505,363
<b>EXPENDITURES</b>					
Personal Services	117,986,249	134,660		118,120,909	115,236,176
Contracted Personal Services	35,725,120	2,281		35,727,401	29,654,465
Supplies and Materials	7,800,011	4,571		7,804,582	8,320,133
Travel	1,971,509	9,194		1,980,703	1,973,059
Communication	2,212,350	1,607		2,213,957	2,033,394
Utilities	189,946			189,946	201,587
Data Processing Services	153,271			153,271	153,123
Other Services	3,537,576	15,126		3,552,702	3,042,788
Other Fixed Charges	2,059,866	520		2,060,386	2,827,534
Capital Outlay	5,822,819	16,490	311,193	6,150,502	3,004,352
Grants, State Aid, and Subsidies (Exhibit I-4)	528,360,799	2,068		528,362,867	546,873,490
Other Expenditures	8,121,786	662		8,122,448	8,013,659
Total Expenditures	713,941,302	187,179	311,193	714,439,674	721,333,760
Excess of Revenues Over (Under) Expenditures	(131,819,977)	416,799	10,783	(131,392,395)	(126,828,397)
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	135,806,584			135,806,584	134,347,725
Transfers In	13,243,471			13,243,471	17,445,098
Transfers Out	(10,776,242)			(10,776,242)	(25,413,992)
Transfers to State Reserve Fund	(2,126,659)			(2,126,659)	
Other	40,254			40,254	21,333
Total Other Financing Sources	136,187,408	0	0	136,187,408	126,400,164
Net Change in Fund Balances	4,367,431	416,799	10,783	4,795,013	(428,233)
Fund Balances - Beginning of Year	1,692,172	1,639,845	(10,783)	3,321,234	3,749,467
Fund Balances - End of Year	\$ 6,059,603	\$ 2,056,644	\$ 0	\$ 8,116,247	\$ 3,321,234

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Public Health**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit I-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child/Adult Day Care	\$ 99,035,415	\$ 111,457,517	\$ 102,576,418	\$ (8,881,099)
HIV Care Grant	52,102,346	59,988,648	40,220,962	(19,767,686)
WIC	238,973,351	242,860,185	185,808,883	(57,051,302)
Medicaid	50,390,199	52,682,416	41,262,137	(11,420,279)
Other Federal Grants	130,376,854	150,121,503	104,245,458	(45,876,045)
Local Grants	26,334,986	29,433,189	29,220,772	(212,417)
Sales, Services, and Rentals	2,326,144	2,326,144	1,213,718	(1,112,426)
Fees, Licenses, and Fines	13,092,850	12,686,696	9,961,898	(2,724,798)
Miscellaneous Revenues	78,242,931	84,022,692	82,118,457	(1,904,235)
Total Revenues	690,875,076	745,578,990	596,628,703	(148,950,287)
EXPENDITURES				
Personal Services	138,762,770	137,424,262	118,022,463	19,401,799
Purchased Services	67,011,435	83,977,472	52,349,188	31,628,284
Supplies	13,804,399	15,016,165	7,287,565	7,728,600
Property, Plant, and Equipment	3,307,708	9,754,784	5,479,925	4,274,859
Other Expenditures and Adjustments	3,115,788	5,941,117	6,755,052	(813,935)
Aid and Public Assistance	597,137,126	622,258,976	533,300,645	88,958,331
Reserves	3,325,942	5,660,698		5,660,698
Total Expenditures	826,465,168	880,033,474	723,194,838	156,838,636
Excess of Revenues Over (Under) Expenditures	(135,590,092)	(134,454,484)	(126,566,135)	7,888,349
OTHER FINANCING SOURCES (USES)				
State Appropriations	141,975,612	141,975,612	135,806,584	(6,169,028)
Transfers from Other Departments or Funds	4,366,335	6,905,344	4,809,184	(2,096,160)
Transfers to Other Departments or Funds	(10,751,855)	(14,426,472)	(14,049,633)	376,839
Total Other Financing Sources	135,590,092	134,454,484	126,566,135	(7,888,349)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	34,974,105
Payables	(28,416,237)
Deferred Inflows	(498,844)
Total Basis Differences	6,059,024
<b>Other Adjustments:</b>	
Cash	579
Fund Balance (GAAP Basis) June 30, 2016	\$ 6,059,603

**North Carolina Department of Health and Human Services**  
**Schedule of Grants, State Aid, and Subsidies Expenditures**  
**Division of Public Health**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit I-4**

**GRANTS, STATE AID, AND SUBSIDIES**

Social Service Programs:

Food and Nutrition

Women, Infants, and Children (WIC) Program

\$ 254,248,318

Other Nutrition

98,753,123

Total Food and Nutrition

353,001,441

Child and Family

Maternal and Infant Health

18,378,897

Children Health Services

16,417,079

Child and Adult Prevention

15,756,522

Early Intervention

23,010,435

Total Child and Family

73,562,933

Total Social Service Programs

426,564,374

Public Health Programs:

Communicable Diseases

74,862,359

General Public Health

19,241,971

Chronic Diseases

4,331,411

Other Public Health Programs

3,362,752

Total Public Health Programs

101,798,493

Total Grants, State Aid, and Subsidies Expenditures

\$ 528,362,867

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Aging and Adult Services**  
**June 30, 2016 (With Comparative Amounts for June 30, 2015)**

**Exhibit J-1**

	General Fund	
	2016	2015
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 0	\$ 94,710
Receivables:		
Accounts Receivable	201	
Intergovernmental Receivables	4,050,901	4,864,277
Due from Other Funds		8,538
Total Assets	4,051,102	4,967,525
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0
Total Assets and Deferred Outflows	\$ 4,051,102	\$ 4,967,525
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 207,795	\$ 260,326
Intergovernmental Payables	6,882,769	6,749,090
Due to Other State Agencies and Funds	18,918	25,720
Due to State of North Carolina Component Units	11,666	
Total Liabilities	7,121,148	7,035,136
<b>DEFERRED INFLOWS OF RESOURCES</b>	0	0
<b>FUND BALANCE</b>		
Unassigned	(3,070,046)	(2,067,611)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 4,051,102	\$ 4,967,525

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**

**Division of Aging and Adult Services**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Amounts for June 30, 2015)**

**Exhibit J-2**

	<b>General Fund</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Federal Funds	\$ 50,905,708	\$ 50,820,679
Local Funds	9,803,983	9,638,901
Fees, Licenses, and Fines	35,022	63,916
Miscellaneous Revenues	120,425	127,449
Total Revenues	60,865,138	60,650,945
<b>EXPENDITURES</b>		
Personal Services	5,244,460	4,891,700
Contracted Personal Services	1,787,629	1,856,463
Supplies and Materials	21,082	23,004
Travel	157,391	157,419
Communication	31,142	36,151
Other Services	25,244	17,331
Other Fixed Charges	24,243	33,848
Capital Outlay	31,240	7,344
Grants, State Aid, and Subsidies	97,337,348	95,658,361
Expenditures to Other State Agencies	169,710	38,825
Other Expenditures	121,670	117,702
Total Expenditures	104,951,159	102,838,148
Excess of Revenues Over (Under) Expenditures	(44,086,021)	(42,187,203)
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	43,107,882	42,325,463
Transfers In	255,934	258,633
Transfers Out	(136,092)	(116,391)
Transfers to State Reserve Fund	(144,138)	
Other		14
Total Other Financing Sources	43,083,586	42,467,719
Net Change in Fund Balance	(1,002,435)	280,516
Fund Balance - Beginning of Year	(2,067,611)	(2,348,127)
Fund Balance - End of Year	<u>\$ (3,070,046)</u>	<u>\$ (2,067,611)</u>

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Aging and Adult Services**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit J-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Title III Grants	\$ 27,748,240	\$ 28,812,625	\$ 28,566,160	\$ (246,465)
Nutrition Services Incentive Program	3,310,009	4,449,995	3,397,859	(1,052,136)
Family Caregiver Support	4,901,186	4,526,046	4,549,048	23,002
Other Federal Grants	15,596,787	17,009,118	15,480,076	(1,529,042)
Local Match and Program Income	10,031,755	10,205,912	9,966,865	(239,047)
Sales, Services, and Rentals	100	100		(100)
Fees, Licenses, and Fines	45,000	45,000	35,022	(9,978)
Contributions and Donations	132,400	132,400	85,500	(46,900)
Miscellaneous Revenues	78,306	169,956	45,353	(124,603)
Total Revenues	61,843,783	65,351,152	62,125,883	(3,225,269)
EXPENDITURES				
Personal Services	5,942,453	5,727,841	5,244,603	483,238
Purchased Services	1,866,652	3,047,085	2,329,063	718,022
Supplies	26,531	28,667	21,756	6,911
Property, Plant, and Equipment	39,427	65,580	29,506	36,074
Other Expenditures and Adjustments	170,100	370,866	71,449	299,417
Aid and Public Assistance	97,579,912	99,931,782	97,438,092	2,493,690
Total Expenditures	105,625,075	109,171,821	105,134,469	4,037,352
Excess of Revenues Over (Under) Expenditures	(43,781,292)	(43,820,669)	(43,008,586)	812,083
OTHER FINANCING SOURCES (USES)				
State Appropriations	44,001,242	43,919,965	43,107,882	(812,083)
Transfers from Other Departments or Funds		350,644	350,644	
Transfers to Other Departments or Funds	(219,950)	(449,940)	(449,940)	
Total Other Financing Sources	43,781,292	43,820,669	43,008,586	(812,083)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	4,051,102
Payables	(7,121,148)
Total Basis Differences	(3,070,046)
Fund Balance (GAAP Basis) June 30, 2016	\$ (3,070,046)

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Services for the Blind/Deaf and Hard of Hearing**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit K-1**

	<b>General Fund</b>	<b>Other Special Revenue Fund</b>	<b>N.C. Dual Party Relay System Fund</b>	<b>Total Blind/Deaf Services 2016</b>	<b>Total Blind/Deaf Services 2015</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 4,840	\$ 396,389	\$ 15,772,498	\$ 16,173,727	\$ 12,719,476
Receivables:					
Accounts Receivable, Net	64,347	91,787	286,661	442,795	598,492
Intergovernmental Receivables	446,876			446,876	582,773
Total Assets	516,063	488,176	16,059,159	17,063,398	13,900,741
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0	0	0	0
Total Assets and Deferred Outflows	<u>\$ 516,063</u>	<u>\$ 488,176</u>	<u>\$ 16,059,159</u>	<u>\$ 17,063,398</u>	<u>\$ 13,900,741</u>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 381,016	\$ 185,430	\$ 46,386	\$ 612,832	\$ 410,255
Intergovernmental Payables	5,595			5,595	4,194
Medical Claims Payable	210,956		125,322	336,278	
Due to Other State Agencies and Funds	74,737		2,794	77,531	77,461
Total Liabilities	672,304	185,430	174,502	1,032,236	491,910
<b>DEFERRED INFLOWS OF RESOURCES</b>	0	0	0	0	0
<b>FUND BALANCES</b>					
Restricted for Health and Human Services	4,840	19,121		23,961	23,302
Committed to Health and Human Services		274,921	15,884,657	16,159,578	13,180,603
Assigned to Health and Human Services		8,704		8,704	8,704
Unassigned	(161,081)			(161,081)	196,222
Total Fund Balances	(156,241)	302,746	15,884,657	16,031,162	13,408,831
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 516,063</u>	<u>\$ 488,176</u>	<u>\$ 16,059,159</u>	<u>\$ 17,063,398</u>	<u>\$ 13,900,741</u>

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



**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

**Division of Services for the Blind/Deaf and Hard of Hearing**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit K-2**

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2016	Total Blind/Deaf Services 2015
<b>REVENUES</b>					
Federal Funds	\$ 15,907,213	\$ 658,063	\$ 0	\$ 16,565,276	\$ 16,314,552
Local Funds	476,006			476,006	475,891
Sales and Services, Net		864,734		864,734	1,094,553
Fees, Licenses, and Fines			4,003,490	4,003,490	4,785,914
Revenues from Other State Agencies			10,590,588	10,590,588	11,959,400
Miscellaneous Revenues	165,705	1,093	103,772	270,570	1,411,323
Total Revenues	16,548,924	1,523,890	14,697,850	32,770,664	36,041,633
<b>EXPENDITURES</b>					
Personal Services	17,119,100		1,357,436	18,476,536	18,200,940
Contracted Personal Services	567,375	82,649	2,879,162	3,529,186	3,282,153
Supplies and Materials	184,373	22,302	3,489	210,164	220,287
Travel	592,523	47,112	12,199	651,834	628,756
Communication	232,582		25,355	257,937	233,854
Utilities	16,071	1,018	2,566	19,655	24,758
Data Processing Services	18,177		1,944	20,121	3,443
Other Services	118,630	415,384	99,986	634,000	648,211
Other Fixed Charges	59,155	6,949	1,209	67,313	77,620
Capital Outlay	90,624	589,201	89,187	769,012	1,010,531
Grants, State Aid, and Subsidies	6,763,564	80,000	3,776,562	10,620,126	10,079,304
Other Expenditures	1,188,371		131,924	1,320,295	1,237,190
Total Expenditures	26,950,545	1,244,615	8,381,019	36,576,179	35,647,047
Excess of Revenues Over (Under) Expenditures	(10,401,621)	279,275	6,316,831	(3,805,515)	394,586
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	7,134,742			7,134,742	7,862,397
Transfers In	3,796,107	455,985	605,943	4,858,035	4,472,452
Transfers Out	(886,615)	(1,043,201)	(3,635,115)	(5,564,931)	(6,826,943)
Other					53,743
Total Other Financing Sources (Uses)	10,044,234	(587,216)	(3,029,172)	6,427,846	5,561,649
Net Change in Fund Balances	(357,387)	(307,941)	3,287,659	2,622,331	5,956,235
Fund Balances - Beginning of Year	201,146	610,687	12,596,998	13,408,831	7,452,596
Fund Balances - End of Year	\$ (156,241)	\$ 302,746	\$ 15,884,657	\$ 16,031,162	\$ 13,408,831

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Services for the Blind/Deaf and Hard of Hearing**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit K-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehab Services	\$ 14,364,040	\$ 14,417,014	\$ 11,458,055	\$ (2,958,959)
Other Federal Grants	4,634,572	4,646,242	4,410,048	(236,194)
Local Grants	619,937	907,787	609,190	(298,597)
Sales, Services, and Rentals				
Fees, Licenses, and Fines	77,097	77,097		(77,097)
Miscellaneous Revenues	883,623	974,957	228,064	(746,893)
Total Revenues	20,579,269	21,023,097	16,705,357	(4,317,740)
EXPENDITURES				
Personal Services	19,966,810	19,865,977	17,118,521	2,747,456
Purchased Services	3,102,421	3,593,547	2,726,479	867,068
Supplies	253,491	230,275	179,392	50,883
Property, Plant, and Equipment	276,991	184,297	79,783	104,514
Other Expenditures and Adjustments	655,548	440,612	45,248	395,364
Aid and Public Assistance	8,876,373	8,714,399	6,600,168	2,114,231
Reserves		274,961		274,961
Total Expenditures	33,131,634	33,304,068	26,749,591	6,554,477
Excess of Revenues Over (Under) Expenditures	(12,552,365)	(12,280,971)	(10,044,234)	2,236,737
OTHER FINANCING SOURCES (USES)				
State Appropriations	8,221,594	8,221,594	7,134,742	(1,086,852)
Transfers from Other Departments or Funds	4,952,666	4,945,992	3,796,107	(1,149,885)
Transfers to Other Departments or Funds	(621,895)	(886,615)	(886,615)	
Total Other Financing Sources	12,552,365	12,280,971	10,044,234	(2,236,737)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	511,223
Payables	(672,304)
Total Basis Differences	(161,081)
<b>Other Adjustments:</b>	
Cash	4,840
Fund Balance (GAAP Basis) June 30, 2016	\$ (156,241)

**North Carolina Department of Health and Human  
Balance Sheet - Governmental Funds  
Division of Vocational Rehabilitation  
June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit L-1**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total Vocational Rehabilitation 2016</b>	<b>Total Vocational Rehabilitation 2015</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 0	\$ 2,779,000	\$ 2,779,000	\$ 494,214
Receivables:				
Accounts Receivable, Net	269,518		269,518	24,104
Intergovernmental Receivables	2,541,952		2,541,952	2,661,287
Due from Other Funds				3,621
Total Assets	2,811,470	2,779,000	5,590,470	3,183,226
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0	0	0
Total Assets and Deferred Outflows	\$ 2,811,470	\$ 2,779,000	\$ 5,590,470	\$ 3,183,226
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 2,991,845	\$ 0	\$ 2,991,845	\$ 3,024,156
Intergovernmental Payables	243,674		243,674	129,384
Medical Claims Payable	374,273		374,273	285,603
Due to Other State Agencies and Funds	299,946		299,946	91,724
Total Liabilities	3,909,738	0	3,909,738	3,530,867
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	333	0	333	40
<b>FUND BALANCES</b>				
Restricted for Health and Human Services				48,250
Committed to Health and Human Services		2,779,000	2,779,000	428,131
Unassigned	(1,098,601)		(1,098,601)	(824,062)
Total Fund Balances	(1,098,601)	2,779,000	1,680,399	(347,681)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 2,811,470	\$ 2,779,000	\$ 5,590,470	\$ 3,183,226

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

**Division of Vocational Rehabilitation**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit L-2**

	<b>General Fund</b>	<b>Other Special Revenue Fund</b>	<b>Capital Projects Fund</b>	<b>Total Vocational Rehabilitation 2016</b>	<b>Total Vocational Rehabilitation 2015</b>
<b>REVENUES</b>					
Federal Funds	\$ 86,641,897	\$ 0	\$ 0	\$ 86,641,897	\$ 87,522,919
Local Funds	2,777,846			2,777,846	2,664,803
Sales and Services, Net	436,754			436,754	486,747
Revenues from Other State Agencies	253,681		2,779,000	3,032,681	514,313
Miscellaneous Revenues	3,389,724	3,634		3,393,358	3,054,758
Total Revenues	93,499,902	3,634	2,779,000	96,282,536	94,243,540
<b>EXPENDITURES</b>					
Personal Services	54,747,117			54,747,117	52,663,340
Contracted Personal Services	1,911,172			1,911,172	1,736,105
Supplies and Materials	714,082			714,082	399,669
Travel	995,163			995,163	913,453
Communication	1,299,609			1,299,609	1,115,014
Utilities	370,723			370,723	391,253
Other Services	325,338			325,338	554,859
Other Fixed Charges	185,581			185,581	200,638
Capital Outlay	555,965		(9,684)	546,281	581,350
Grants, State Aid, and Subsidies	60,579,869			60,579,869	63,243,374
Expenditures to Other State Agencies	702,490			702,490	397,468
Other Expenditures	4,821,932			4,821,932	4,666,880
Total Expenditures	127,209,041	0	(9,684)	127,199,357	126,863,403
Excess of Revenues Over (Under) Expenditures	(33,709,139)	3,634	2,788,684	(30,916,821)	(32,619,863)
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	35,394,741			35,394,741	35,674,091
Transfers In	68,429			68,429	468,664
Transfers Out	(2,468,826)	(51,884)	(1,435)	(2,522,145)	(5,025,012)
Other	3,876			3,876	4,878
Total Other Financing Sources (Uses)	32,998,220	(51,884)	(1,435)	32,944,901	31,122,621
Net Change in Fund Balances	(710,919)	(48,250)	2,787,249	2,028,080	(1,497,242)
Fund Balances - Beginning of Year	(387,682)	48,250	(8,249)	(347,681)	1,149,561
Fund Balances - End of Year	<u>\$ (1,098,601)</u>	<u>\$ 0</u>	<u>\$ 2,779,000</u>	<u>\$ 1,680,399</u>	<u>\$ (347,681)</u>

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Vocational Rehabilitation**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit L-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehabilitation Services	\$ 95,838,864	\$ 95,750,567	\$ 83,244,924	\$ (12,505,643)
Other Federal Grants	5,276,052	5,096,354	3,651,438	(1,444,916)
Local Grants	2,777,985	2,746,834	2,784,466	37,632
Sales, Services, and Rentals	17,838	438,440	441,179	2,739
Miscellaneous Revenues	5,060,863	4,250,103	4,155,392	(94,711)
Total Revenues	108,971,602	108,282,298	94,277,399	(14,004,899)
EXPENDITURES				
Personal Services	59,300,912	58,967,446	54,384,203	4,583,243
Purchased Services	9,968,417	10,145,704	9,520,385	625,319
Supplies	586,113	934,237	851,945	82,292
Property, Plant, and Equipment	425,437	603,893	488,947	114,946
Other Expenditures and Adjustments	3,859,213	1,136,801	1,129,931	6,870
Aid and Public Assistance	71,467,474	70,082,545	60,879,275	9,203,270
Reserves	501	983,694		983,694
Total Expenditures	145,608,067	142,854,320	127,254,686	15,599,634
Excess of Revenues Over (Under) Expenditures	(36,636,465)	(34,572,022)	(32,977,287)	1,594,735
OTHER FINANCING SOURCES (USES)				
State Appropriations	36,974,467	36,974,467	35,394,741	(1,579,726)
Transfers from Other Departments or Funds	89,699	769,989	753,862	(16,127)
Transfers to Other Departments or Funds	(427,701)	(3,172,434)	(3,171,316)	1,118
Total Other Financing Sources	36,636,465	34,572,022	32,977,287	(1,594,735)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	2,811,470
Payables	(3,909,738)
Deferred Inflows	(333)
Total Basis Differences	(1,098,601)
Fund Balance (GAAP Basis) June 30, 2016	\$ (1,098,601)

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Social Services**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit M-1**

	<b>General Fund</b>	<b>Disability Determination Fund</b>	<b>Total Social Services 2016</b>	<b>Total Social Services 2015</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 3,692,341	\$ 139,393	\$ 3,831,734	\$ 3,127,670
Receivables:				
Accounts Receivable, Net	5,109,972	476	5,110,448	5,446,003
Intergovernmental Receivables	72,897,398	1,334,944	74,232,342	68,394,165
Due from Other Funds	201,974	238,789	440,763	122,210
Total Assets	81,901,685	1,713,602	83,615,287	77,090,048
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0	0	0
Total Assets and Deferred Outflows	<u>\$ 81,901,685</u>	<u>\$ 1,713,602</u>	<u>\$ 83,615,287</u>	<u>\$ 77,090,048</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 2,069,385	\$ 1,374,783	\$ 3,444,168	\$ 6,117,186
Intergovernmental Payables	73,126,937	161,949	73,288,886	67,043,607
Medical Claims Payable	1,052,127		1,052,127	1,414,582
Due to Other State Agencies and Funds	1,808,688	285	1,808,973	1,550,909
Due to State of North Carolina Component Units	150	395	545	
Total Liabilities	78,057,287	1,537,412	79,594,699	76,126,284
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	91,423	476	91,899	74,180
<b>FUND BALANCE</b>				
Nonspendable				
Restricted for Health and Human Services	1,266,426	175,714	1,442,140	1,011,556
Committed to Health and Human Services	1,985,084		1,985,084	2,370,164
Assigned to Health and Human Services				214,805
Unassigned	501,465		501,465	(2,706,941)
Total Fund Balances	3,752,975	175,714	3,928,689	889,584
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 81,901,685</u>	<u>\$ 1,713,602</u>	<u>\$ 83,615,287</u>	<u>\$ 77,090,048</u>

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

**Division of Social Services**

**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit M-2**

	<b>General Fund</b>	<b>Disability Determination Fund</b>	<b>Total Social Services 2016</b>	<b>Total Social Services 2015</b>
<b>REVENUES</b>				
Federal Funds <sup>1</sup>	\$ 3,208,599,697	\$ 62,874,789	\$ 3,271,474,486	\$ 3,352,655,623
Local Funds	110,869,674		110,869,674	112,337,350
Fees, Licenses, and Fines	357,408		357,408	361,125
Revenues from Other State Agencies	20,955		20,955	51,327
Miscellaneous Revenues	15,846,227	1,344	15,847,571	14,337,900
Total Revenues	3,335,693,961	62,876,133	3,398,570,094	3,479,743,325
<b>EXPENDITURES</b>				
Personal Services	22,576,346	38,166,798	60,743,144	58,618,644
Contracted Personal Services	13,474,113	22,929,171	36,403,284	34,537,720
Supplies and Materials	117,918	231,966	349,884	467,966
Travel	802,795	48,816	851,611	772,822
Communication	1,015,694	323,765	1,339,459	1,631,059
Utilities				502
Data Processing Services	143,022		143,022	86,670
Other Services	5,437,277	319,357	5,756,634	5,879,818
Other Fixed Charges	302,750	740,710	1,043,460	2,114,805
Capital Outlay	148,011	389,368	537,379	1,172,124
Grants, State Aid, and Subsidies (Exhibit M-4) <sup>1</sup>	3,470,916,654	288,629	3,471,205,283	3,556,717,219
Expenditures to Other State Agencies	828,598		828,598	357,832
Other Expenditures	647,495	2,324,268	2,971,763	2,843,574
Total Expenditures	3,516,410,673	65,762,848	3,582,173,521	3,665,200,755
Excess of Revenues Over (Under) Expenditures	(180,716,712)	(2,886,715)	(183,603,427)	(185,457,430)
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	178,733,748		178,733,748	181,693,767
Transfers In	9,109,233	2,894,054	12,003,287	11,672,175
Transfers Out	(3,879,167)		(3,879,167)	(7,232,851)
Transfers to State Reserve Fund	(215,336)		(215,336)	
Total Other Financing Sources	183,748,478	2,894,054	186,642,532	186,133,091
Net Change in Fund Balances	3,031,766	7,339	3,039,105	675,661
Fund Balances - Beginning of Year	721,209	168,375	889,584	213,923
Fund Balances - End of Year	\$ 3,752,975	\$ 175,714	\$ 3,928,689	\$ 889,584

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

<sup>1</sup> Food stamp benefits are recognized as revenue and expenditure when recipients use the benefits. Food stamps used during the year of \$2,303,514,516 are recognized on this statement but are not recognized in the budgeted amounts on Exhibit M-3.

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Social Services**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit M-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 169,588,304	\$ 231,563,000	\$ 230,148,298	\$ (1,414,702)
Title IV-D / Child Support	103,140,951	103,985,177	92,749,374	(11,235,803)
Title IV-E / Foster Care	139,021,679	125,616,766	124,040,660	(1,576,106)
Low Income Energy Program	106,637,909	106,637,909	96,858,110	(9,779,799)
Food Stamps	83,594,063	100,883,730	99,084,853	(1,798,877)
TANF	166,066,330	166,066,330	156,070,228	(9,996,102)
Other Federal Grants	115,506,191	111,594,592	102,564,614	(9,029,978)
Local Grants	641,931,096	724,574,637	699,597,985	(24,976,652)
Fees, Licenses, and Fines	6,968	6,968		(6,968)
Miscellaneous Revenues	7,747,079	9,204,623	8,797,949	(406,674)
Total Revenues	1,533,240,570	1,680,133,732	1,609,912,071	(70,221,661)
EXPENDITURES				
Personal Services	26,112,923	26,259,068	22,586,395	3,672,673
Purchased Services	27,610,361	27,405,045	20,754,282	6,650,763
Supplies	359,771	339,295	117,719	221,576
Property, Plant, and Equipment	346,472	321,417	128,763	192,654
Other Expenditures and Adjustments	1,911,095	3,472,119	3,054,478	417,641
Aid and Public Assistance	1,666,763,445	1,814,151,026	1,751,270,669	62,880,357
Reserves	444,822	1,073,303		1,073,303
Total Expenditures	1,723,548,889	1,873,021,273	1,797,912,306	75,108,967
Excess of Revenues Over (Under) Expenditures	(190,308,319)	(192,887,541)	(188,000,235)	4,887,306
OTHER FINANCING SOURCES (USES)				
State Appropriations	183,387,998	183,451,439	178,733,748	(4,717,691)
Transfers from Other Departments or Funds	9,168,679	15,418,993	13,698,073	(1,720,920)
Transfers to Other Departments or Funds	(2,248,358)	(5,982,891)	(4,431,586)	1,551,305
Total Other Financing Sources	190,308,319	192,887,541	188,000,235	(4,887,306)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	78,209,344
Payables	(78,057,287)
Deferred Inflows	(91,423)
Total Basis Differences	60,634
<b>Other Adjustments:</b>	
Cash	3,692,341
Fund Balances (GAAP Basis) June 30, 2016	\$ 3,752,975



**North Carolina Department of Health and Human Services**  
**Schedule of Grants, State Aid, and Subsidies Expenditures**  
**Division of Social Services**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit M-4**

**GRANTS, STATE AID, AND SUBSIDIES**

Food and Nutrition:	
Food Stamp Program	\$ 2,303,514,516
Nutrition and Food Education Programs	94,164,285
	<hr/>
Total Food and Nutrition	2,397,678,801
	<hr/>
Child and Family:	
Child Services	361,441,470
Foster Care	76,053,815
Adoption	112,201,866
	<hr/>
Total Child and Family	549,697,151
	<hr/>
Support of Aging and Adult Programs	148,962,326
	<hr/>
Support of Medicaid Programs	228,464,902
	<hr/>
Other Social Service Programs:	
Low-Income Energy Assistance Program	96,839,119
Miscellaneous	49,562,984
	<hr/>
Total Other Social Service Programs	146,402,103
	<hr/>
Total Grants, State Aid, and Subsidies Expenditures	\$ 3,471,205,283
	<hr/>

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Mental Health/Developmental Disabilities and Substance Abuse Services**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit N-1**

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2016	Total Mental Health 2015
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 0	\$ 3,370,820	\$ 31,510,364	\$ 34,881,184	\$ 44,106,600
Receivables:					
Accounts Receivable, Net	18,378,209	271,290		18,649,499	25,880,446
Intergovernmental Receivables	13,887,971			13,887,971	1,050,732
Due from Other State Agencies					
Due from Other Funds	90,387			90,387	7,943
Inventories	5,517,108	31,838		5,548,946	6,067,647
<b>Total Assets</b>	<b>37,873,675</b>	<b>3,673,948</b>	<b>31,510,364</b>	<b>73,057,987</b>	<b>77,113,368</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Assets and Deferred Outflows</b>	<b>\$ 37,873,675</b>	<b>\$ 3,673,948</b>	<b>\$ 31,510,364</b>	<b>\$ 73,057,987</b>	<b>\$ 77,113,368</b>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 25,544,765	\$ 136,188	\$ 9,322,494	\$ 35,003,447	\$ 25,211,067
Intergovernmental Payables	283,128	1,283		284,411	638,869
Medical Claims Payable	9,219,930			9,219,930	
Due to Other State Agencies and Funds	2,665,068	597	22	2,665,687	2,160,180
Due to State of North Carolina Component Units	285,298	964		286,262	
Other Liabilities		4,197		4,197	11,196
<b>Total Liabilities</b>	<b>37,998,189</b>	<b>143,229</b>	<b>9,322,516</b>	<b>47,463,934</b>	<b>28,021,312</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	4,121,547	80	0	4,121,627	7,735,931
<b>FUND BALANCES</b>					
Nonspendable	5,517,108	31,838		5,548,946	6,067,647
Restricted for Health and Human Services		1,064,002		1,064,002	1,314,736
Committed to Health and Human Services		1,328,013	36,367,731	37,695,744	27,692,248
Assigned to Health and Human Services		1,106,786		1,106,786	1,132,247
Unassigned	(9,763,169)		(14,179,883)	(23,943,052)	5,149,247
<b>Total Fund Balances</b>	<b>(4,246,061)</b>	<b>3,530,639</b>	<b>22,187,848</b>	<b>21,472,426</b>	<b>41,356,125</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 37,873,675</b>	<b>\$ 3,673,948</b>	<b>\$ 31,510,364</b>	<b>\$ 73,057,987</b>	<b>\$ 77,113,368</b>

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Division of Mental Health/Developmental Disabilities and Substance Abuse Services**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit N-2**

	<u>General Fund</u>	<u>Other Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Mental Health 2016</u>	<u>Total Mental Health 2015</u>
<b>REVENUES</b>					
Federal Funds	\$ 440,824,797	\$ 526,065	\$ 0	\$ 441,350,862	\$ 390,971,985
Local Funds	1,886,436			1,886,436	1,822,474
Sales and Services, Net (Note 10)	56,403,249	1,534,974		57,938,223	58,481,655
Fees, Licenses, and Fines	566,929	1,811		568,740	659,768
Revenues from Other State Agencies	3,046,788	1,000,000	49,155,290	53,202,078	26,333,991
Miscellaneous Revenues	5,153,784	889,543		6,043,327	6,776,325
Total Revenues	<u>507,881,983</u>	<u>3,952,393</u>	<u>49,155,290</u>	<u>560,989,666</u>	<u>485,046,198</u>
<b>EXPENDITURES</b>					
Personal Services	623,010,655	933,915		623,944,570	615,748,339
Contracted Personal Services	43,117,449	149,068		43,266,517	47,066,861
Supplies and Materials	41,750,192	1,304,648		43,054,840	45,966,610
Travel	466,474	92,826		559,300	495,797
Communication	2,121,357	44,253		2,165,610	2,097,942
Utilities	12,416,512	61,378		12,477,890	13,126,363
Data Processing Services	139			139	23
Other Services	1,463,797	191,757		1,655,554	2,180,009
Other Fixed Charges	4,887,885	43,865		4,931,750	3,161,305
Capital Outlay	8,437,054	76,789	33,492,167	42,006,010	29,430,985
Grants, State Aid, and Subsidies (Exhibit N-4)	381,910,252	725,355		382,635,607	428,114,729
Expenditures to Other State Agencies	3,342,885			3,342,885	1,450,604
Other Expenditures	19,107,915	145,237		19,253,152	21,519,664
Total Expenditures	<u>1,142,032,566</u>	<u>3,769,091</u>	<u>33,492,167</u>	<u>1,179,293,824</u>	<u>1,210,359,231</u>
Excess of Revenues Over (Under) Expenditures	<u>(634,150,583)</u>	<u>183,302</u>	<u>15,663,123</u>	<u>(618,304,158)</u>	<u>(725,313,033)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	594,775,074			594,775,074	685,727,911
Transfers In	223,196,676	98,090	255,421	223,550,187	208,970,493
Transfers Out	(160,500,645)	(524,782)	(252,590)	(161,278,017)	(158,613,194)
Transfers to State Reserve Fund	(60,552,324)			(60,552,324)	
Other	1,925,539			1,925,539	1,334,942
Total Other Financing Sources (Uses)	<u>598,844,320</u>	<u>(426,692)</u>	<u>2,831</u>	<u>598,420,459</u>	<u>737,420,152</u>
Net Change in Fund Balances	<u>(35,306,263)</u>	<u>(243,390)</u>	<u>15,665,954</u>	<u>(19,883,699)</u>	<u>12,107,119</u>
Fund Balances - Beginning of Year	<u>31,060,202</u>	<u>3,774,029</u>	<u>6,521,894</u>	<u>41,356,125</u>	<u>29,249,006</u>
Fund Balances - End of Year	<u>\$ (4,246,061)</u>	<u>\$ 3,530,639</u>	<u>\$ 22,187,848</u>	<u>\$ 21,472,426</u>	<u>\$ 41,356,125</u>

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Mental Health/Developmental Disabilities and Substance Abuse Services**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit N-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 5,367,369	\$ 5,373,676	\$ 4,645,951	\$ (727,725)
Reimbursements to Facilities	3,588,803	3,588,803	3,148,394	(440,409)
Medicaid	588,707,108	585,857,292	560,137,724	(25,719,568)
SAPT Block Grant	44,418,890	44,418,890	31,100,207	(13,318,683)
Other Federal Grants	27,407,087	35,978,076	24,324,689	(11,653,387)
Local Grants	1,469,287	2,888,914	2,667,024	(221,890)
Sales, Services, and Rentals	66,170,672	66,792,073	56,846,068	(9,946,005)
Contributions and Donations			10,375	10,375
Fees, Licenses, and Fines	796,013	924,493	573,231	(351,262)
Miscellaneous	1,544,451	1,644,269	1,411,871	(232,398)
Total Revenues	739,469,680	747,466,486	684,865,534	(62,600,952)
EXPENDITURES				
Personal Services	678,161,942	643,465,912	622,276,428	21,189,484
Purchased Services	55,782,681	74,739,717	66,602,042	8,137,675
Supplies	47,979,253	48,664,904	41,400,118	7,264,786
Property, Plant, and Equipment	21,603,123	7,952,476	6,841,136	1,111,340
Other Expenditures and Adjustments	7,343,938	16,149,671	16,105,785	43,886
Aid and Public Assistance	377,918,978	403,479,759	370,296,280	33,183,479
Miscellaneous Expenditures	1,230,553	8,983,074		8,983,074
Total Expenditures	1,190,020,468	1,203,435,513	1,123,521,789	79,913,724
Excess of Revenues Over (Under) Expenditures	(450,550,788)	(455,969,027)	(438,656,255)	17,312,772
OTHER FINANCING SOURCES (USES)				
State Appropriations	612,083,011	612,044,875	594,775,074	(17,269,801)
Transfers from Other Departments or Funds	33,790,839	68,691,653	68,227,791	(463,862)
Transfers to Other Departments or Funds	(195,323,062)	(224,767,501)	(224,346,610)	420,891
Total Other Financing Sources	450,550,788	455,969,027	438,656,255	(17,312,772)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	32,356,567
Payables	(37,998,189)
Deferred Inflows	(4,121,547)
Total Basis Differences	(9,763,169)
<b>Other Adjustments:</b>	
Inventories	5,517,108
Fund Balance (GAAP Basis) June 30, 2016	\$ (4,246,061)

**North Carolina Department of Health and Human Services**

**Schedule of Grants, State Aid, and Subsidies Expenditures**

**Division of Mental Health/Developmental Disabilities and Substance Abuse Services**

**For the Fiscal Year Ended June 30, 2016**

**Exhibit N-4**

**GRANTS, STATE AID, AND SUBSIDIES**

Mental Health Programs:

Local Management Entity Expenditures	\$ 359,905,589
Non-Governmental Expenditures	17,191,553
Governmental Expenditures	<u>5,538,465</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 382,635,607</u>

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Health Benefits**  
**June 30, 2016**

**Exhibit O-1**

	<b>General Fund</b>
<b>ASSETS</b>	<b>\$ 0</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0</b>
Total Assets and Deferred Outflows	<b>\$ 0</b>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 704,195
Due to Other State Agencies and Funds	56,487
Due to State of North Carolina Component Units	<u>30,969</u>
Total Liabilities	<u>791,651</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>0</b>
<b>FUND BALANCE</b>	
Unassigned	<u>(791,651)</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<b>\$ 0</b>

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**Division of Health Benefits**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit O-2**

	<b>General Fund</b>
<b>REVENUES</b>	<b>\$ 0</b>
<b>EXPENDITURES</b>	
Personal Services	493,291
Contracted Personal Services	1,955,621
Supplies and Materials	11,523
Travel	5,408
Other Services	30,258
Other Fixed Charges	2,460
Capital Outlay	78,306
Other Expenditures	2,279
Total Expenditures	<u>2,579,146</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,579,146)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
State Appropriations	2,904,652
Transfers In	4,093,888
Transfers to State Reserve Fund	<u>(5,211,045)</u>
Total Other Financing Sources	<u>1,787,495</u>
Net Change in Fund Balance	(791,651)
Fund Balance - Beginning of Year	<u>0</u>
Fund Balance - End of Year	<u><u>\$ (791,651)</u></u>

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

**North Carolina Department of Health and Human Services**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP) General Fund**  
**Division of Health Benefits**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit O-3**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>EXPENDITURES</b>				
Personal Services	1,034,497	1,034,497	493,290	541,207
Purchased Services	2,213,204	1,576,877	1,210,107	366,770
Supplies	35,333	35,333	4,912	30,421
Property, Plant, and Equipment	630,000	148,270	78,306	69,964
Other Expenditures and Adjustments		900	880	20
Reserves	5,180,854	1,086,966		1,086,966
Total Expenditures	9,093,888	3,882,843	1,787,495	2,095,348
Excess of Revenues Over (Under) Expenditures	(9,093,888)	(3,882,843)	(1,787,495)	2,095,348
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	5,000,000	5,000,000	2,904,652	(2,095,348)
Transfers from Other Departments or Funds	4,093,888	4,093,888	4,093,888	
Transfers to Other Departments or Funds		(5,211,045)	(5,211,045)	
Total Other Financing Sources	9,093,888	3,882,843	1,787,495	(2,095,348)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Payables	(791,651)
Fund Balance (GAAP Basis) June 30, 2016	\$ (791,651)





# **OTHER SUPPLEMENTARY INFORMATION**

**North Carolina Department of Health and Human Services**  
**Combining Balance Sheet**  
**Other Governmental Funds**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit P-1**

	Special Revenue Funds	Capital Projects Funds	Total 2016	Total 2015
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 21,710,871	\$ 35,952,819	\$ 57,663,690	\$ 29,318,212
Receivables:				
Accounts Receivable, Net	669,147		669,147	789,738
Intergovernmental Receivables	1,352,591		1,352,591	1,471,187
Due from Other Funds	238,789		238,789	
Inventories	31,838		31,838	33,532
Total Assets	24,003,236	35,952,819	59,956,055	31,612,669
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 24,003,236	\$ 35,952,819	\$ 59,956,055	\$ 31,612,669
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 1,754,373	\$ 9,413,618	\$ 11,167,991	\$ 5,460,608
Intergovernmental Payables	163,232		163,232	49,202
Medical Claims Payable	125,322		125,322	
Due to Other State Agencies and Funds	3,797	22	3,819	13,559
Due to State of North Carolina Component Units	1,359		1,359	
Other Liabilities	4,197		4,197	3,855
Total Liabilities	2,052,280	9,413,640	11,465,920	5,527,224
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	556	0	556	34,119
<b>FUND BALANCES</b>				
Nonspendable	31,838		31,838	33,532
Restricted for Health and Human Services	1,258,837		1,258,837	1,299,739
Committed to Health and Human Services	19,544,235	40,776,508	60,320,743	32,140,112
Assigned to Health and Human Services	1,115,490		1,115,490	1,140,951
Unassigned		(14,237,329)	(14,237,329)	(8,563,008)
Total Fund Balances	21,950,400	26,539,179	48,489,579	26,051,326
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 24,003,236	\$ 35,952,819	\$ 59,956,055	\$ 31,612,669

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Other Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit P-2**

	Special Revenue Funds	Capital Projects Funds	Total 2016	Total 2015
<b>REVENUES</b>				
Federal Funds	\$ 64,058,917	\$ 0	\$ 64,058,917	\$ 63,723,284
Local Funds	23,430		23,430	23,529
Sales and Services, Net	2,399,708		2,399,708	3,147,996
Fees, Licenses, and Fines	4,585,849		4,585,849	5,376,478
Revenues from Other State Agencies	11,590,588	53,536,293	65,126,881	35,968,066
Miscellaneous Revenues	999,386		999,386	1,147,027
Total Revenues	83,657,878	53,536,293	137,194,171	109,386,380
<b>EXPENDITURES</b>				
Personal Services	40,592,809		40,592,809	40,560,029
Contracted Personal Services	26,042,331		26,042,331	24,078,246
Supplies and Materials	1,566,976		1,566,976	1,791,649
Travel	210,147		210,147	197,851
Communication	394,980		394,980	286,367
Utilities	64,962		64,962	76,507
Data Processing Services	1,944		1,944	
Other Services	1,041,610		1,041,610	1,050,444
Other Fixed Charges	793,253		793,253	520,208
Capital Outlay	1,161,035	34,295,256	35,456,291	25,528,240
Grants, State Aid, and Subsidies	4,872,614		4,872,614	4,393,015
Other Expenditures	2,602,091		2,602,091	2,916,061
Total Expenditures	79,344,752	34,295,256	113,640,008	101,398,617
Excess of Revenues Over (Under) Expenditures	4,313,126	19,241,037	23,554,163	7,987,763
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	4,054,072	255,421	4,309,493	2,908,632
Transfers Out	(5,254,982)	(255,421)	(5,510,403)	(6,445,783)
Other		85,000	85,000	53,743
Total Other Financing Sources (Uses)	(1,200,910)	85,000	(1,115,910)	(3,483,408)
Net Change in Fund Balances	3,112,216	19,326,037	22,438,253	4,504,355
Fund Balances - Beginning of Year	18,838,184	7,213,142	26,051,326	21,546,971
Fund Balances - End of Year	\$ 21,950,400	\$ 26,539,179	\$ 48,489,579	\$ 26,051,326

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

**North Carolina Department of Health and Human Services**  
**Combining Balance Sheet**  
**Special Revenue Funds**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit P-3**

	Other Special Revenue Fund	Disability Determination Fund	N.C. Dual Party Relay System Fund	Total 2016	Total 2015
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,798,980	\$ 139,393	\$ 15,772,498	\$ 21,710,871	\$ 18,062,719
Receivables:					
Accounts Receivable, Net	382,010	476	286,661	669,147	789,738
Intergovernmental Receivables	17,647	1,334,944		1,352,591	1,471,187
Due from Other Funds		238,789		238,789	
Inventories	31,838			31,838	33,532
Total Assets	6,230,475	1,713,602	16,059,159	24,003,236	20,357,176
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 6,230,475	\$ 1,713,602	\$ 16,059,159	\$ 24,003,236	\$ 20,357,176
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 333,204	\$ 1,374,783	\$ 46,386	\$ 1,754,373	\$ 1,424,369
Intergovernmental Payables	1,283	161,949		163,232	49,202
Medical Claims Payable			125,322	125,322	
Due to Other State Agencies and Funds	718	285	2,794	3,797	7,447
Due to State of North Carolina Component Units	964	395		1,359	
Other Liabilities	4,197			4,197	3,855
Total Liabilities	340,366	1,537,412	174,502	2,052,280	1,484,873
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	80	476	0	556	34,119
<b>FUND BALANCES</b>					
Nonspendable	31,838			31,838	33,532
Restricted for Health and Human Services	1,083,123	175,714		1,258,837	1,299,739
Committed to Health and Human Services	3,659,578		15,884,657	19,544,235	16,363,962
Assigned to Health and Human Services	1,115,490			1,115,490	1,140,951
Total Fund Balances	5,890,029	175,714	15,884,657	21,950,400	18,838,184
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 6,230,475	\$ 1,713,602	\$ 16,059,159	\$ 24,003,236	\$ 20,357,176

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Special Revenue Funds**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit P-4**

	Other Special Revenue Fund	Disability Determination Fund	N.C. Dual Party Relay System Fund	Total 2016	Total 2015
<b>REVENUES</b>					
Federal Funds	\$ 1,184,128	\$ 62,874,789	\$ 0	\$ 64,058,917	\$ 63,723,284
Local Funds	23,430			23,430	23,529
Sales and Services, Net	2,399,708			2,399,708	3,147,996
Fees, Licenses, and Fines	582,359		4,003,490	4,585,849	5,376,478
Revenues from Other State Agencies	1,000,000		10,590,588	11,590,588	12,910,045
Miscellaneous Revenues	894,270	1,344	103,772	999,386	1,147,027
Total Revenues	6,083,895	62,876,133	14,697,850	83,657,878	86,328,359
<b>EXPENDITURES</b>					
Personal Services	1,068,575	38,166,798	1,357,436	40,592,809	40,560,029
Contracted Personal Services	233,998	22,929,171	2,879,162	26,042,331	24,078,246
Supplies and Materials	1,331,521	231,966	3,489	1,566,976	1,791,649
Travel	149,132	48,816	12,199	210,147	197,851
Communication	45,860	323,765	25,355	394,980	286,367
Utilities	62,396		2,566	64,962	76,507
Data Processing Services			1,944	1,944	
Other Services	622,267	319,357	99,986	1,041,610	1,050,444
Other Fixed Charges	51,334	740,710	1,209	793,253	520,208
Capital Outlay	682,480	389,368	89,187	1,161,035	1,812,769
Grants, State Aid, and Subsidies	807,423	288,629	3,776,562	4,872,614	4,393,015
Other Expenditures	145,899	2,324,268	131,924	2,602,091	2,916,061
Total Expenditures	5,200,885	65,762,848	8,381,019	79,344,752	77,683,146
Excess of Revenues Over (Under) Expenditures	883,010	(2,886,715)	6,316,831	4,313,126	8,645,213
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	554,075	2,894,054	605,943	4,054,072	2,795,077
Transfers Out	(1,619,867)		(3,635,115)	(5,254,982)	(6,343,857)
Other					53,743
Total Other Financing Sources (Uses)	(1,065,792)	2,894,054	(3,029,172)	(1,200,910)	(3,495,037)
Net Change in Fund Balances	(182,782)	7,339	3,287,659	3,112,216	5,150,176
Fund Balances - Beginning of Year	6,072,811	168,375	12,596,998	18,838,184	13,688,008
Fund Balances - End of Year	\$ 5,890,029	\$ 175,714	\$ 15,884,657	\$ 21,950,400	\$ 18,838,184

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

**North Carolina Department of Health and Human Services**  
**Combining Balance Sheet**  
**Capital Projects Funds**  
**June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit P-5**

	Debt Supporting Fund	Non-Debt Supporting Fund	Total 2016	Total 2015
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 0	\$ 35,952,819	\$ 35,952,819	\$ 11,255,493
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	0	0	0	0
Total Assets and Deferred Outflows	<u>\$ 0</u>	<u>\$ 35,952,819</u>	<u>\$ 35,952,819</u>	<u>\$ 11,255,493</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 8,616,656	\$ 796,962	\$ 9,413,618	\$ 4,036,239
Due to Other State Agencies and Funds	22		22	6,112
Total Liabilities	<u>8,616,678</u>	<u>796,962</u>	<u>9,413,640</u>	<u>4,042,351</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	0	0	0	0
<b>FUND BALANCES</b>				
Committed to Health and Human Services		40,776,508	40,776,508	15,776,150
Unassigned	(8,616,678)	(5,620,651)	(14,237,329)	(8,563,008)
Total Fund Balances	<u>(8,616,678)</u>	<u>35,155,857</u>	<u>26,539,179</u>	<u>7,213,142</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 0</u>	<u>\$ 35,952,819</u>	<u>\$ 35,952,819</u>	<u>\$ 11,255,493</u>

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Capital Projects Funds**  
**For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

**Exhibit P-6**

	<b>Debt Supporting Fund</b>	<b>Non-Debt Supporting Fund</b>	<b>Total 2016</b>	<b>Total 2015</b>
<b>REVENUES</b>				
Revenues from Other State Agencies	\$ 24,253,750	\$ 29,282,543	\$ 53,536,293	\$ 23,058,021
<b>EXPENDITURES</b>				
Capital Outlay	30,139,178	4,156,078	34,295,256	23,715,471
Excess of Revenues Over (Under) Expenditures	(5,885,428)	25,126,465	19,241,037	(657,450)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In		255,421	255,421	113,555
Transfers Out		(255,421)	(255,421)	(101,926)
Other		85,000	85,000	
Total Other Financing Sources	0	85,000	85,000	11,629
Net Change in Fund Balances	(5,885,428)	25,211,465	19,326,037	(645,821)
Fund Balances - Beginning of Year	(2,731,250)	9,944,392	7,213,142	7,858,963
Fund Balances - End of Year	\$ (8,616,678)	\$ 35,155,857	\$ 26,539,179	\$ 7,213,142

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

**North Carolina Department of Health and Human Services**  
**Transfers By Division**  
**For the Fiscal Year Ended June 30, 2016**

	Transfers In - By Division			
	Central Administration	Medical Assistance	Health Service Regulation	Public Health
<b>Transfers Out - By Division</b>				
Central Administration	\$ 3,211,583	\$ 5,088	\$ 0	\$ 452,160
Medical Assistance	7,936			12,406,562
Child Development	2,941,065			
Health Service Regulation	700,000		1,959,107	
Public Health	10,271,039			384,749
Aging	136,092			
Blind/Deaf Services	1,312,840			
Vocational Rehabilitation	2,468,826			
Social Services	3,879,167			
Mental Health	763,833	159,736,812		
Total Transfers	<u>\$ 25,692,381</u>	<u>\$ 159,741,900</u>	<u>\$ 1,959,107</u>	<u>\$ 13,243,471</u>

Note: There are transfers to and from the same divisions in the exhibit above which represent transfers between budget codes within that division.



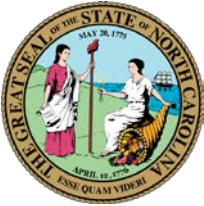
**Exhibit Q-1****Transfers In - By Division**

<b>Aging</b>	<b>Blind/ Deaf Services</b>	<b>Vocational Rehabilitation</b>	<b>Social Services</b>	<b>Mental Health</b>	<b>Health Benefits</b>	<b>Total</b>
\$ 255,934	\$ 605,944	\$ 0	\$ 5,526,282	\$ 4,528,949	\$ 0	\$ 14,585,940
		16,545	3,733,949	218,121,977	4,093,888	238,380,857
			2,743,056			5,684,121
						2,659,107
				120,454		10,776,242
						136,092
	4,252,091					5,564,931
		51,884		1,435		2,522,145
						3,879,167
				777,372		161,278,017
<u>\$ 255,934</u>	<u>\$ 4,858,035</u>	<u>\$ 68,429</u>	<u>\$ 12,003,287</u>	<u>\$ 223,550,187</u>	<u>\$ 4,093,888</u>	<u>\$ 445,466,619</u>



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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**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**

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Mr. Richard O. Brajer, Secretary  
and Management of the North Carolina Department of Health and Human Services

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 North Carolina Department of Health and Human Services (Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 7, 2017.

As discussed in Note 1, the financial statements of the North Carolina Department of Health and Human Services are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Health and Human Services. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2016, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department'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 may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 7, 2017

# ORDERING INFORMATION

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For additional information contact:  
Bill Holmes  
Director of External Affairs  
**919-807-7513**



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This audit required 3,624 audit hours at an approximate cost of \$398,272.