

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, 2017

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

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, 2017, 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

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 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 per the 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, 2017 (with comparative totals for June 30, 2016) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2017 (with comparative totals for fiscal year ended June 30, 2016) 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 and actual comparison for the General Fund (for the fiscal year ended June 30, 2017) 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, 2017 (with comparative totals for fiscal year ended June 30, 2016).

“**E**” **through “O” Exhibits** present Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balances **by division** for fiscal year ended June 30, 2017 (with comparative totals for fiscal year ended June 30, 2016). These exhibits also present budget and actual comparisons for the **General Fund by division** for fiscal year ended June 30, 2017.

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, 2017 (with comparative totals 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, 2017 with comparative totals for fiscal year ended June 30, 2016).

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

Required Information:

The **Independent Auditor’s Report on Internal Control and 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 and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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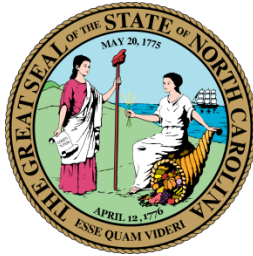
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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Dr. Mandy K. Cohen, 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 funds, 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, 2017, 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 funds, 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, 2017, 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, 2017, 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 funds, 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 Department as of June 30, 2016 and the respective changes in financial position for the year then ended June 30, 2016 and we expressed unmodified audit opinions on those audited financial statements in our report dated March 7, 2017. The prior period supplementary schedules were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary schedules were not subjected to the auditing procedures applied in the audit of the basic financial statements of the prior period, and accordingly, we did not express an opinion or provide any assurance on them.

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 19, 2018 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 19, 2018



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, 2017 and 2016. 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 Board (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 schedules of grants, state aid, and subsidies expenditures, combining schedules of other governmental funds, and a schedule of 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, 2017 and 2016.

Condensed Balance Sheets Governmental Funds		
	2017	2016 (Restated)
Assets	\$ 1,134,087,417	\$ 1,079,765,794
Deferred Outflows of Resources	0	0
Total Assets and Deferred Outflows	<u>\$ 1,134,087,417</u>	<u>\$ 1,079,765,794</u>
Liabilities	\$ 1,384,026,125	\$ 1,307,353,123
Deferred Inflows of Resources	10,508,751	5,430,130
Fund Balances		
Nonspendable	9,593,140	10,623,786
Restricted	54,811,253	68,666,281
Committed	100,222,464	79,741,741
Assigned	5,401,184	4,882,171
Unassigned	(430,475,500)	(396,931,438)
Total Fund Balances	<u>(260,447,459)</u>	<u>(233,017,459)</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,134,087,417</u>	<u>\$ 1,079,765,794</u>

Total assets increased \$54.3 million, or 5.0%, compared to fiscal year 2016. This increase is primarily due to a \$35.1 million increase in receivables from the federal government, primarily related to increased Medicaid expenditures discussed below.

Total liabilities increased \$76.7 million, or 5.9%, compared to fiscal year 2016. This increase is primarily related to an increase of \$31.8 million in payables to the federal government, along with a \$35.9 million increase in the medical claims payable. Payables to the federal Department of Health and Human Services increased \$30.4 million due to the timing difference of annual payments for cost settlements compared to prior year. 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 primarily represent unavailable patient service revenues at the Division of State Operated Healthcare Facilities (DSOHF), which is reported within the Division of Mental Health. Deferred inflows increased \$5.1 million, or 93.5%, due to increased rates and volumes for patient services at DSOHF.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

	2017	2016 (Restated)
Revenues		
Federal Funds	\$ 13,579,653,528	\$ 13,305,484,355
Other Revenues	656,016,433	677,664,579
Total Revenues	14,235,669,961	13,983,148,934
Expenditures		
Personal Services	1,074,066,080	1,033,138,066
Contracted Personal Services	392,602,675	332,840,541
Supplies and Materials	54,714,397	53,586,311
Travel	8,003,807	7,972,082
Communication	9,622,750	9,909,837
Utilities	16,786,899	16,322,464
Data Processing Services	22,363,735	22,175,494
Other Services	15,090,186	13,786,130
Other Fixed Charges	17,778,714	17,307,064
Capital Outlay	66,559,267	56,671,469
Grants, State Aid, and Subsidies	17,285,655,943	16,950,051,913
Expenditures to Other State Agencies	192,837,959	175,358,122
Other Expenditures	41,253,988	45,874,601
Total Expenditures	19,197,336,400	18,734,994,094
Excess of Revenues Over (Under) Expenditures	(4,961,666,439)	(4,751,845,160)
Other Financing Sources (Uses)		
State Appropriations	4,927,221,843	4,837,156,439
Transfers In	473,043,643	445,466,619
Transfers Out	(473,043,643)	(445,466,619)
Transfers from State Reserve Fund	184,269,193	
Transfers to State Reserve Fund	(178,001,733)	(185,248,059)
Other	747,136	2,035,069
Total Other Financing Sources	4,934,236,439	4,653,943,449
Net Change in Fund Balances	(27,430,000)	(97,901,711)
Fund Balances - Beginning of Year, as Restated	(233,017,459)	(135,115,748)
Fund Balances - End of Year	\$ (260,447,459)	\$ (233,017,459)

Total revenues increased \$252.5 million, or 1.8% compared to the prior year, primarily due to an increase in federal revenues of \$274.2 million, or 2.1%. The increase in federal funds is primarily related to increased grants, state aid, and subsidies expenditures. Grants, state aid, and subsidies expenditures and federal funds have a direct relationship. An increase in grants, state aid, and expenditures usually results in more federal fund reimbursements. The increase in federal revenues was also offset by a decrease of \$21.6 million in other revenues primarily related to decreased revenues from other state agencies.

Total expenditures increased \$462.3 million, or 2.5% compared to the prior year. The increase was primarily due to an increase of \$335.6 million, or 2.0%, in spending for grants, state aid, and subsidies. The increase in grant expenditures was primarily at the Division of Medical Assistance (DMA) due to increased enrollment in the Medicaid and NC Health Choice programs compared to prior year. See supplementary schedule Exhibit F-5 for further details on DMA's grant expenditures.

Expenditures for personal services increased \$40.9 million due to legislative salary increases. Contracted personal services expenditures increased \$59.8 million, which primarily consisted of computer automation and application services related projects. There was also an increase of \$9.9 million in capital outlay, primarily for purchases of medical equipment, computer servers, and updated computer software. Expenditures to other state agencies increased \$17.5 million, primarily due to increased transfers to the State General Fund for Disproportionate Share Hospital (DSH) payments.

Total other financing sources increased \$280.3 million, or 6.0%, compared to the prior year. The most significant change was the continued impact of the change in the cash carryforward process resulting in a transfer from the state reserve fund of \$184.3 million. This transfer in represented the prior year carryforward funds transferred out to the state reserve fund. State appropriations increased \$90.1 million, primarily due to the total increase in grants, state aid, and subsidies expenditures. State appropriations are used to provide the non-federal share of the federal programs.

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, 2017, the Department's governmental funds reported a fund balance deficit of \$260.4 million, an increase of \$27.4 million or 12%, 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 \$45.1 million (or 15.8%) to a negative \$330.4 million at June 30, 2017. The fund balance deficit increase is primarily attributable to the medical claims payable and the accounting for the reimbursement of the federal and non-federal share. Medical claims payable of \$998.4 million represents the Department's most significant liability, which is offset by an intergovernmental receivable for the federal share only. See Note 7 to the financial statements for more details.

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 \$317.6 million and \$379.8 million, respectively, more than the original budget. The increases are primarily comprised of a \$210.2 million increase in the final budgeted federal funds and a \$327.5 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 2016-17 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 \$549.1 million less than the final budgeted revenue amounts. Likewise, actual total expenditures were \$672.6 million less than budgeted expenditures. Budgeted revenues and expenditures were unrealized mostly due to a \$475.7 million 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. Actual federal funds revenue was \$562.0 million less than budgeted.

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. On November 20, 2017, the Department submitted an amended Section 1115 Demonstration Waiver application to CMS. 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 Health Benefits

- On February 24, 2017, CMS approved a Medicaid State Plan Amendment 14-0001-MM4 and on December 29, 2017, they also approved a Merit Protection Requirements Corrective Action Plan (CAP) that was submitted by the State last year. The CAP contained revisions to several human resources documents which addressed issues identified in the State's personnel policies. Upon receiving approval for both of the above, the State drew FFP (federal financial participation) for all expenditures incurred through December 31, 2017 and retroactive to January 1, 2014. It is the intent to continue drawing FFP for all future applicable expenditures as well. To date, total expenditures were \$10,810,485 and the applicable FFP to be drawn is \$5,405,243.

Division of Medical Assistance

- There is a projected growth in Medicaid enrollment for fiscal year 2018. In addition, the Children's Health Insurance Program (CHIP) grant was extended for 10 years at the federal level. Moving forward, CHIP will receive an enhanced Federal Medical Assistance Percentage (eFMAP) related to the Affordable Care Act until September 30, 2019 resulting in 100% federal funding. With the continued enhanced federal funding, the Division of Medical Assistance's budget decreased its dependence on state appropriations for fiscal year 2018.

Division of Child Development and Early Education

- For fiscal year 2018, the General Assembly authorized an additional recurring \$9 million for the NC Pre-K program to reduce the waiting list, funding will increase to \$18.3 million in 2019. Prior to this expansion, over 27,000 children were served. These funds will be used to serve an estimated additional 1,725 children in the NC Pre-K program in 2018, and an estimated additional 3,525 children in 2019.
- Funding for the Subsidized Child Care Program was increased by \$10 million in fiscal year 2018, which will increase to \$13 million 2019, to allow for market rate increases in three-star to five-star rated child care centers and homes. Effective October 1, 2017, Tier 1 and Tier 2 counties will have market rate increases for school-aged children, and Tier 1 counties will have market rate increases for infants and toddlers, based on the 2015 Child Care Market Rate Survey. This builds on previous years' market rate increases.

Division of Health Service Regulation

- The Division is moving to replace seven legacy information technology systems. In the 2017-19 Biennial Budget, the Division received funding for Operations and Maintenance for phases one and two of a three-phase project. The General Assembly has approved a budget of \$6.7 million to begin the development of the new systems; however, additional funding is needed to build and maintain the systems.

Division of Public Health

- The Nurse Family Partnership Program received \$2 million of recurring appropriations to expand the program's home visiting services.
- With the resurgence of Hepatitis C, the State Laboratory and Communicable Disease Branch received \$300,000 recurring and \$300,000 nonrecurring appropriations for priority communicable disease testing. Funds may also be used to provide individuals, who test positive for communicable diseases, access to appropriate health care provider treatment options.

Division of Aging and Adult Services

- For fiscal year 2018, the Senior Community Service Employment Program funding was reduced by 8.5% with a possibility of additional reductions given the current support for the program at both the federal and legislative levels.

- According to the Carolina Population Center located at the University of North Carolina, North Carolina is anticipated to have 17% of the population within the 65+ years demographic. This will result in a sizeable increase in individuals that may access services in the future.

Division of Social Services

- Subsequent to the passage of S.L. 2017-41 (House Bill 630), several actions are being undertaken in fiscal year 2018 to implement the provisions of the law. These include:
 - Release of a request for proposal and selection of a third-party organization to evaluate and make recommendations for improvements to the child welfare and social services systems in North Carolina.
 - Implementation of a Working Group to evaluate the child welfare and social services systems in North Carolina and make recommendations to the General Assembly.
- Based on recent results on the federal Child and Family Services Review, North Carolina must take immediate actions to improve its performance in providing critical services to children and their families. The State has two years to demonstrate improvement. The Division received \$9,146,696 in continued funding for several child welfare areas to provide the necessary resources to achieve the goals identified in the Program Improvement Plan subsequent to the Child and Family Services Review.
- The Division received \$2,722,418 in additional funding for Foster Care payments for children. There has been a significant increase in the number of children served by the Foster Care program in North Carolina over the past two years.
- The Division received an additional \$1 million to provide evidence-based services to sexually and physically-abused children and their families through 30 accredited Child Advocacy Centers across North Carolina.

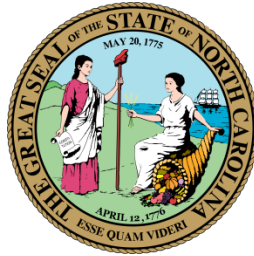
Division of Mental Health/Developmental Disabilities and Substance Abuse Services

- Session Law 2017-57, Section 11F.2.(b) has directed the Division of Mental Health to reduce its allocation for single-stream funding by \$31.5 million in recurring funds and by \$55.5 million in nonrecurring funds for the 2017-2018 fiscal year. The reduction continues into the 2018-2019 fiscal year with \$36.0 million in recurring funds and \$54.6 million in nonrecurring funds.
- Session Law 2017-57, Section 11F.2.(d) will allow the Division of Medical Assistance (DMA) to transfer funds to the Division of Mental Health. The transfer will not exceed DMA's certified budget surplus or \$30.0 million, whichever is less.

Division of State Operated Healthcare Facilities

- In the 2016 Conference Report, the General Assembly eliminated the General Fund Appropriations in the three Alcohol and Drug Abuse Treatment Centers (ADATC's) of the Division of State Operated Healthcare Facilities. This recurring reduction of \$37,381,817 converted the ADATC's 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 ADATC's at 100% of the same amount. The fiscal year 2018 requirement for the LME/MCO's is that a minimum of 86% of the allocation be used exclusively to purchase inpatient alcohol and substance abuse treatment services from the ADATC's.



FINANCIAL STATEMENTS

North Carolina Department of Health and Human Services
Balance Sheet
Governmental Funds
June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit A-1

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2017	Total Governmental Funds 2016 (Restated)
ASSETS				
Cash and Cash Equivalents (Note 2)	\$ 95,497,104	\$ 78,917,890	\$ 174,414,994	\$ 166,413,147
Receivables:				
Accounts Receivable, Net (Note 4)	101,653,815	733,985	102,387,800	88,040,451
Intergovernmental Receivables (Note 4)	845,473,102	1,717,117	847,190,219	812,277,961
Due from Other Funds	501,264		501,264	2,410,449
Inventories	9,391,504	201,636	9,593,140	10,623,786
Total Assets	<u>1,052,516,789</u>	<u>81,570,628</u>	<u>1,134,087,417</u>	<u>1,079,765,794</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows	<u>\$ 1,052,516,789</u>	<u>\$ 81,570,628</u>	<u>\$ 1,134,087,417</u>	<u>\$ 1,079,765,794</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 87,614,101	\$ 11,576,746	\$ 99,190,847	\$ 94,989,756
Intergovernmental Payables (Note 6)	271,892,720	22,872	271,915,592	229,794,636
Medical Claims Payable (Note 7)	998,428,239		998,428,239	962,517,517
Due to Other State Agencies and Funds	10,491,419	28,642	10,520,061	18,682,163
Due to State of North Carolina Component Units	3,954,258	12,619	3,966,877	1,364,854
Other Liabilities	312	4,197	4,509	4,197
Total Liabilities	<u>1,372,381,049</u>	<u>11,645,076</u>	<u>1,384,026,125</u>	<u>1,307,353,123</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	<u>10,508,751</u>	<u>0</u>	<u>10,508,751</u>	<u>5,430,130</u>
FUND BALANCES				
Nonspendable	9,391,504	201,636	9,593,140	10,623,786
Restricted for Health and Human Services	53,626,298	1,184,955	54,811,253	68,666,281
Committed to Health and Human Services	23,655,203	76,567,261	100,222,464	79,741,741
Assigned to Health and Human Services	4,181,805	1,219,379	5,401,184	4,882,171
Unassigned	<u>(421,227,821)</u>	<u>(9,247,679)</u>	<u>(430,475,500)</u>	<u>(396,931,438)</u>
Total Fund Balances	<u>(330,373,011)</u>	<u>69,925,552</u>	<u>(260,447,459)</u>	<u>(233,017,459)</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,052,516,789</u>	<u>\$ 81,570,628</u>	<u>\$ 1,134,087,417</u>	<u>\$ 1,079,765,794</u>

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit A-2

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2017	Total Governmental Funds 2016 (Restated)
REVENUES				
Federal Funds	\$ 13,513,990,616	\$ 65,662,912	\$ 13,579,653,528	\$ 13,305,484,355
Local Funds	134,570,338	28,280	134,598,618	149,461,682
Sales and Services, Net	52,976,820	2,528,443	55,505,263	61,083,763
Fees, Licenses, and Fines (Note 11)	188,200,673	3,712,528	191,913,201	188,577,117
Revenues from Other State Agencies (Note 12)	91,131,263	35,445,761	126,577,024	152,079,291
Miscellaneous Revenues	146,500,709	921,618	147,422,327	126,462,726
Total Revenues	14,127,370,419	108,299,542	14,235,669,961	13,983,148,934
EXPENDITURES				
Personal Services	1,032,676,249	41,389,831	1,074,066,080	1,033,138,066
Contracted Personal Services	369,932,688	22,669,987	392,602,675	332,840,541
Supplies and Materials	53,478,676	1,235,721	54,714,397	53,586,311
Travel	7,848,444	155,363	8,003,807	7,972,082
Communication	9,246,319	376,431	9,622,750	9,909,837
Utilities	16,768,986	17,913	16,786,899	16,322,464
Data Processing Services	22,363,735		22,363,735	22,175,494
Other Services	14,209,575	880,611	15,090,186	13,786,130
Other Fixed Charges	17,631,129	147,585	17,778,714	17,307,064
Capital Outlay	33,313,418	33,245,849	66,559,267	56,671,469
Grants, State Aid, and Subsidies (Exhibit D-1)	17,284,026,468	1,629,475	17,285,655,943	16,950,051,913
Expenditures to Other State Agencies (Note 12)	192,837,959		192,837,959	175,358,122
Other Expenditures	38,799,503	2,454,485	41,253,988	45,874,601
Total Expenditures	19,093,133,149	104,203,251	19,197,336,400	18,734,994,094
Excess of Revenues Over (Under) Expenditures	(4,965,762,730)	4,096,291	(4,961,666,439)	(4,751,845,160)
OTHER FINANCING SOURCES (USES)				
State Appropriations	4,918,365,843	8,856,000	4,927,221,843	4,837,156,439
Transfers In (Note 13 & Exhibit Q-1)	450,333,793	22,709,850	473,043,643	445,466,619
Transfers Out (Note 13 & Exhibit Q-1)	(458,782,134)	(14,261,509)	(473,043,643)	(445,466,619)
Transfers from State Reserve Fund	184,269,193		184,269,193	
Transfers to State Reserve Fund	(178,000,000)		(178,000,000)	(185,248,059)
Other	710,062	35,341	745,403	2,035,069
Total Other Financing Sources	4,916,896,757	17,339,682	4,934,236,439	4,653,943,449
Net Change in Fund Balances	(48,865,973)	21,435,973	(27,430,000)	(97,901,711)
Fund Balances - Beginning of Year, as Restated (Note 18)	(281,507,038)	48,489,579	(233,017,459)	(135,115,748)
Fund Balances - End of Year	\$ (330,373,011)	\$ 69,925,552	\$ (260,447,459)	\$ (233,017,459)

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 purpose 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. The division also includes the disability determination activity.

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.

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, deferred outflows

of resources, 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. 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 and withdraw cash at any time without prior notice or penalty. The Department's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.
- F. 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.

- G. 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.
- H. 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.
- I. Deferred Outflows/Inflows of Resources** - In addition to assets, the Balance Sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows

of resources, represents a consumption of fund balances that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Department does not have any items that qualify for reporting in this category.

In addition to liabilities, the Balance Sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balances that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Department has unavailable revenues that qualify for reporting in this category, primarily from sales and services.

- J. 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 - 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 - 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 - 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 - Assigned fund balances are constrained by the 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 carryforward 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 to the State Budget Director at OSBM.

Unassigned Fund Balances - Unassigned fund balances are 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.

K. 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 represent nonexchange transactions and are eliminated at the statewide reporting level in the State's *Comprehensive Annual Financial Report*.

L. 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 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.

M. Food and Nutrition Services -

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other*

Financial Assistance, the Department recognizes distributions of food and nutrition services benefits (food stamp benefits) as revenues and expenditures in the Division of Social Services' General Fund. Revenues and expenditures are recognized based on the fair market value at the time the benefits are distributed to the individual recipients. Benefits are distributed in electronic form, thus distribution takes place when the individual recipients use the benefits.

NOTE 2 - DEPOSITS AND INVESTMENTS

Unless specifically exempt, the Department is required by *North Carolina General Statute* 147-77 to deposit monies received 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.

At June 30, 2017, the Balance Sheet reported cash and cash equivalents of \$174,414,994, 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 formal oversight other than that of the legislative body and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/inv/Pages/Annual-Supplemental-Reports.aspx> in the Audited Financial Statements section.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Department's investments are recorded at fair value as of June 30, 2017. 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 \$174,414,994 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 at June 30, 2017 were as follows:

	Gross Receivable	Less Allowance for Doubtful Accounts	Net Receivable
Accounts Receivable:			
Medical Assistance	\$ 178,710,636	\$ 117,009,294	\$ 61,701,342
Child Development	655,913	8,818	647,095
Health Service Regulation	1,825,403	1,262,789	562,614
Public Health	5,089,771	925,899	4,163,872
Blind/Deaf Services	412,470	1,233	411,237
Social Services	20,215,478	14,597,083	5,618,395
Mental Health	202,932,993	173,696,898	29,236,095
Other Divisions	140,217	93,067	47,150
Total Accounts Receivable	\$ 409,982,881	\$ 307,595,081	\$ 102,387,800

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, 2017 were as follows:

	<u>Amount</u>
Intergovernmental Receivables:	
Due from Federal Agencies:	
Department of Health and Human Services	\$ 807,970,143
Department of Agriculture	31,032,615
Department of Education	4,529,067
Social Security Administration	1,595,310
Other	808,276
Due from County and Local Agencies	<u>1,254,808</u>
Total Intergovernmental Receivables	<u>\$ 847,190,219</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:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

NOTES TO THE FINANCIAL STATEMENTS

A summary of changes in capital assets for the year ended June 30, 2017 is presented as follows:

	Balance July 1, 2016 (as Restated)	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	\$ 1,123,524	\$ 0	\$ 0	\$ 1,123,524
Construction in Progress	254,453,768	32,137,157	139,026,707	147,564,218
Computer Software in Development	373,793,892	93,386,534		467,180,426
Total Capital Assets, Nondepreciable	629,371,184	125,523,691	139,026,707	615,868,168
Capital Assets, Depreciable:				
Buildings	470,187,316	139,998,139	2,427,478	607,757,977
Machinery and Equipment	146,620,144	6,539,554	4,070,845	149,088,853
General Infrastructure	85,481,735	96,715	1,400,653	84,177,797
Computer Software	253,711,526			253,711,526
Total Capital Assets, Depreciable	956,000,721	146,634,408	7,898,976	1,094,736,153
Less Accumulated Depreciation/Amortization for:				
Buildings	150,266,528	7,681,804	1,914,270	156,034,062
Machinery and Equipment	53,101,212	8,229,292	2,321,410	59,009,094
General Infrastructure	25,806,368	3,318,179	1,291,430	27,833,117
Computer Software	25,845,008	10,148,461		35,993,469
Total Accumulated Depreciation/Amortization	255,019,116	29,377,736	5,527,110	278,869,742
Total Capital Assets, Depreciable, Net	700,981,605	117,256,672	2,371,866	815,866,411
Capital Assets, Net	\$ 1,330,352,789	\$ 242,780,363	\$ 141,398,573	\$ 1,431,734,579

The July 1, 2016 balances of depreciable capital assets were restated to reflect reclassifications among categories made after the end of the prior fiscal year.

NOTE 6 - INTERGOVERNMENTAL PAYABLES

Intergovernmental payables include amounts due to federal agencies and North Carolina counties, primarily for administration of Department programs. Intergovernmental payables at June 30, 2017 were as follows:

	Amount
Intergovernmental Payables:	
Due to Federal Agencies:	
Department of Health and Human Services	\$ 132,822,848
Department of Agriculture	2,340,861
Department of Education	932,406
Social Security Administration	18,475
Other	31,892
Due to North Carolina Counties	135,769,110
Total Intergovernmental Payables	\$ 271,915,592

NOTE 7 - MEDICAL CLAIMS PAYABLE

The Department annually estimates medical claims payable which represents 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 30. 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 67%, 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 2016 *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 of resources and deferred inflows of resources 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, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Net Pension Liability	\$ 181,654,096	\$ 256,681,893	\$ 0	\$ 438,335,989	\$ 0
Compensated Absences	90,051,638	62,796,248	63,388,387	89,459,499	8,015,571
Total Long-Term Liabilities	<u>\$ 271,705,734</u>	<u>\$ 319,478,141</u>	<u>\$ 63,388,387</u>	<u>\$ 527,795,488</u>	<u>\$ 8,015,571</u>

Additional information regarding the net pension liability is included in Note 14.

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, 2017:

Fiscal Year	Amount
2018	\$ 11,647,269
2019	9,715,655
2020	5,926,244
2021	3,595,566
2022	1,404,978
2023 - Beyond	<u>967,902</u>
Total Minimum Lease Payments	<u>\$ 33,257,614</u>

Rental expense for all operating leases during the year was \$18,224,336.

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, 2017 is presented as follows:

	<u>2017</u>
Gross Patient Service Revenue	<u>\$ 758,459,207</u>
Deduct:	
Contractual Adjustments:	
Contractual Allowances	20,200,590
Disproportionate Share Hospital	(159,601,636)
Bad Debt	280,862,410
Third Party Reimbursement Programs:	
Federal Funds - State Medicaid Program	178,403,907
Federal Funds - Managed Care Organizations	200,333,157
Transfers - Non-Federal Share from DMA	<u>187,556,393</u>
Net Patient Service Revenue	<u>\$ 50,704,386</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - FEES, LICENSES, AND FINES REVENUES

Fees, licenses, and fines for the fiscal year ended June 30, 2017 were as follows:

	Medical Assistance	Child Development	Health Service Regulation	Public Health	Blind/Deaf Services	Mental Health	Other Divisions	Total
Business License Fees	\$ 0	\$ 1,142,844	\$ 8,714,341	\$ 4,747,135	\$ 0	\$ 658,726	\$ 0	\$ 15,263,046
Non-Business Permit License Fees				2,299,508			361,074	2,660,582
Certification Fees			138,503	599,847				738,350
Inspection and Examination Fees				2,530,257				2,530,257
Fines, Penalties, and Assessment Fees	510,492	7,400	4,516,613	217,422		87		5,252,014
Registration Fees		68,600	108,559	3,360		844	24,273	205,636
Other Licenses, Fees, and Permits		764,385	3,877,887	5,750,048	3,145,289	2,156		13,539,765
Cost Recoveries	120,713,821							120,713,821
Intermediate Care Facility Assessments	28,697,889							28,697,889
Provider Enrollment Fees	2,345,415							2,345,415
Miscellaneous		53,068	5,159				775,152	833,379
Civil Fines and Penalties - Transfers		(9,343)	(714,068)	(143,472)		(70)		(866,953)
Total Fees, Licenses, and Fines	\$ 152,267,617	\$ 2,026,954	\$ 16,646,994	\$ 16,004,105	\$ 3,145,289	\$ 661,743	\$ 1,160,499	\$ 191,913,201

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

The revenues and expenditures from/to other state agencies by entity for the fiscal year ended June 30, 2017 were as follows:

Revenues from Other State Agencies

Other State Agencies	Central Administration	Child Development	Public Health	Blind/Deaf Services	Mental Health	Other Divisions	Total
State General Fund	\$ 8,253	\$ 1,419	\$ 0	\$ 0	\$ 0	\$ 14,303	\$ 23,975
Office of State Budget and Management				9,934,272	5,481		9,939,753
Department of Public Safety						503,867	503,867
Department of Transportation			1,472,510			20,565	1,493,075
Department of State Treasurer	69,601		100,521		24,335,885		24,506,007
Administrative Office of the Courts			702,058				702,058
Department of Information Technology	1,676,724						1,676,724
Department of Administration					4,996,814		4,996,814
State Health Plan			431,319				431,319
Department of Public Instruction					3,051,322		3,051,322
NC Education Lottery		78,252,110			1,000,000		79,252,110
Total Revenues	\$ 1,754,578	\$ 78,253,529	\$ 2,706,408	\$ 9,934,272	\$ 33,389,502	\$ 538,735	\$ 126,577,024

Expenditures to Other State Agencies

Other State Agencies	Central Administration	Medical Assistance	Health Service Regulation	Aging	Mental Health	Other Divisions	Total
State General Fund	\$ 140	\$ 164,074,773	\$ 2,838,531	\$ 0	\$ 207	\$ 213	\$ 166,913,864
Department of Administration	1,747,919			294,138	7,575,512	58,322	9,675,891
Department of Public Instruction		12,065,872					12,065,872
Department of Information Technology	1,500,000						1,500,000
Department of Commerce						140,683	140,683
Office of Administrative Hearings		2,478,244				63,405	2,541,649
Total Expenditures	\$ 3,248,059	\$ 178,618,889	\$ 2,838,531	\$ 294,138	\$ 7,575,719	\$ 262,623	\$ 192,837,959

NOTE 13 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2017 consisted of the following:

	Transfers In			Total
	General Fund	Special Revenue Fund	Capital Projects Fund	
<u>Transfers Out</u>				
General Fund	\$ 436,478,182	\$ 22,303,952	\$ 0	\$ 458,782,134
Special Revenue Fund	13,855,611	293,838		14,149,449
Capital Projects Fund			112,060	112,060
Total	\$ 450,333,793	\$ 22,597,790	\$ 112,060	\$ 473,043,643

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 \$436,478,182 for General Fund, \$293,838 for Special Revenue Fund, and \$112,060 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 of 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 that elect to join the Retirement System. 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$45,953,968 and the Department's contributions were \$76,436,767 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the Department's proportionate share of the collective net pension liability was \$438,335,989. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the Department's proportion was 4.76%, which was a decrease of 0.17 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 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		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 824,425,290	\$ 438,335,989	\$ 113,687,808

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the Department's proportionate share of the collective pension expense was \$85,694,711. At June 30, 2017, the Department's proportionate share of the collective deferred outflows of resources and deferred inflows of resources related to pensions were 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	\$ 20,716,368
Changes of Assumptions	64,643,906	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	156,324,665	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	4,166,992	220,180
Contributions Subsequent to the Measurement Date	76,436,767	
Total	<u>\$ 301,572,330</u>	<u>\$ 20,936,548</u>

The Department's deferred outflows of resources related to pensions of \$76,436,767 represents a reduction of the net pension liability in the fiscal year ended June 30, 2018. 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
2018	\$ 35,033,726
2019	35,634,183
2020	85,776,222
2021	47,754,884
Total	<u>\$ 204,199,015</u>

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 period July 1, 2016 through December 31, 2016, the Department contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the Department contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The Department made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$44,498,759, \$41,471,216, and \$40,266,619, 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, 2017, the Department made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, was 0.41% in both years. The Department made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$2,910,418, \$3,036,285, and \$3,007,161, 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 0.16% 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 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. 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 purchases commercial professional liability insurance for its 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, 2017, the Department is unable to estimate what liabilities may result from such audits.

For fiscal years 2011-2013, the Department received more than \$34.8 million in unallowable three-year performance bonus payments under the Children's Health Insurance Program Reauthorization Act. The Department has been in discussion with the Centers for Medicaid and

Medicare Services (CMS), which may lead to a reduction in the unallowable amount.

An audit conducted by the United States Department of Health and Human Services Office of Inspector General (OIG) concluded that the Department did not comply with federal and state requirements when making Medicaid cost-sharing payments for professional medical services during fiscal years 2012 and 2013. Based on the audit, the OIG recommended that the Department refund \$41.2 million to the federal government for non-compliant payments. The Department disagrees with the findings and recommendation. Once a final determination of the liability is made, the amount will be paid to CMS.

- B. Pending Litigation and Claims** - The Department is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Department management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Department.
- C. Commitments** - As of June 30, 2017, the Department had commitments of \$27,207,675 related to construction and improvements of state government facilities, primarily held by the Division of Mental Health.
- D. 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 2017, the parties agreed to amend the agreement to extend the deadline for compliance to July 1, 2021.

In House Bill 97 [Session Law 2015-241], the North Carolina Housing Finance Agency, in consultation with the Department, 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. The Department 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 to the Community Living Housing Fund in 2016-17. Senate Bill 257 provided funds of \$4.2 million transferred from the Department to the CLHS. Any unexpended, unencumbered balance of the amounts appropriated shall be transferred and made available to the Community Living Housing Fund. The amount of the unencumbered funds will be determined by December 31, 2018.

NOTE 18 - FUND BALANCE RESTATEMENTS

As of July 1, 2016, fund balances as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2016 Fund Balances as Previously Reported	\$ (236,824,549)
Restatement:	
To Correct Prior Period Accounts Receivable	
Error for the Division of Mental Health	<u>3,807,090</u>
July 1, 2016 Fund Balances as Restated	<u><u>\$ (233,017,459)</u></u>

The July 1, 2016 fund balances as previously reported were restated for the divisions of Vocational Rehabilitation and Social Services as follows:

	<u>Vocational Rehabilitation</u>	<u>Social Services</u>
July 1, 2016 Fund Balances as Previously Reported	\$ 1,680,399	\$ 3,928,689
Restatement:		
To Present the Disability Determination Fund within the Division of Vocational Rehabilitation - Previously Reported within the Division of Social Services	<u>175,714</u>	<u>(175,714)</u>
July 1, 2016 Fund Balances as Restated	<u><u>\$ 1,856,113</u></u>	<u><u>\$ 3,752,975</u></u>



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, 2017

Exhibit B-1

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal Grants	\$ 12,205,157,577	\$ 12,415,385,446	\$ 11,853,390,887	\$ (561,994,559)
Local Grants	680,854,880	772,521,751	763,419,758	(9,101,993)
Provider Match	369,757,571	354,274,827	349,212,205	(5,062,622)
Local Match and Program Income	10,021,614	10,097,077	9,875,639	(221,438)
Sales, Services, and Rentals	74,509,668	78,704,623	53,370,954	(25,333,669)
Fees, Licenses, and Fines	801,732,080	796,609,702	794,736,727	(1,872,975)
Contributions and Donations	132,400	100,375	123,725	23,350
Investment Income		2,000	528,599	526,599
Miscellaneous	(119,561,535)	(87,475,516)	(33,566,120)	53,909,396
Total Revenues	14,022,604,255	14,340,220,285	13,791,092,374	(549,127,911)
EXPENDITURES				
Personal Services	1,136,579,130	1,097,124,697	1,024,378,635	72,746,062
Purchased Services	360,687,071	422,154,602	364,131,414	58,023,188
Supplies	68,677,797	66,585,736	51,795,816	14,789,920
Property, Plant, and Equipment	11,453,557	28,500,818	20,691,992	7,808,826
Other Expenditures and Adjustments	20,479,301	33,864,136	35,193,259	(1,329,123)
Aid and Public Assistance	17,593,226,529	17,920,736,317	17,445,067,089	475,669,228
Reserves	42,914,035	44,885,206	3,711	44,881,495
Total Expenditures	19,234,017,420	19,613,851,512	18,941,261,916	672,589,596
Excess of Revenues Over (Under) Expenditures	(5,211,413,165)	(5,273,631,227)	(5,150,169,542)	123,461,685
OTHER FINANCING SOURCES (USES)				
State Appropriations	5,026,102,670	5,025,567,739	4,918,365,843	(107,201,896)
Transfers from Other Departments or Funds	685,942,607	924,160,015	899,182,139	(24,977,876)
Transfers to Other Departments or Funds	(500,632,112)	(676,096,527)	(667,378,440)	8,718,087
Total Other Financing Sources	5,211,413,165	5,273,631,227	5,150,169,542	(123,461,685)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	947,628,181
Payables	(1,372,381,049)
Deferred Inflows	(10,508,751)
Total Basis Differences	(435,261,619)
Other Adjustments:	
Cash	95,497,104
Inventories	9,391,504
Fund Balance (GAAP Basis) June 30, 2017	\$ (330,373,011)

The accompanying notes to required supplementary information are an integral part of this schedule.

North Carolina Department of Health and Human Services
Notes to Required Supplementary Information
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, 2017

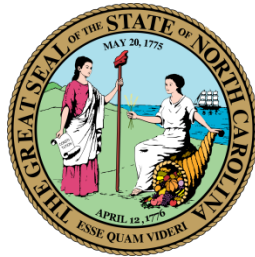
A. Budgetary Process

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.

B. Reconciliation of Budget/GAAP Reporting Differences

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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.



COMBINING FINANCIAL STATEMENTS BY DIVISION

North Carolina Department of Health and Human Services
Combining Balance Sheet
By Division - Governmental Funds
June 30, 2017 (With Comparative Totals for June 30, 2016)

	Central Administration (1)	Medical Assistance (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)
ASSETS					
Cash and Cash Equivalents (Note 2)	\$ 39,184,701	\$ 26,719,439	\$ 328,240	\$ 27,165,666	\$ 2,465,914
Receivables:					
Accounts Receivable, Net (Note 4)	8,715	61,701,342	647,095	562,614	4,163,872
Intergovernmental Receivables (Note 4)	15,812,550	685,524,255	17,732,797	1,565,649	26,314,658
Due from Other Funds	234,150	27,756		53,679	17,376
Inventories	225,646	10,977	11,706	11,050	3,397,362
Total Assets	55,465,762	773,983,769	18,719,838	29,358,658	36,359,182
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 55,465,762	\$ 773,983,769	\$ 18,719,838	\$ 29,358,658	\$ 36,359,182
LIABILITIES					
Accounts Payable and Accrued Liabilities					
Accounts Payable	\$ 14,735,379	\$ 7,097,466	\$ 478,696	\$ 867,477	\$ 18,699,510
Intergovernmental Payables (Note 6)	97,387	135,414,002	27,882,598	12,334	6,557,319
Medical Claims Payable (Note 7)		989,113,616			238,321
Due to Other State Agencies and Funds	4,802,161	362,047	131,530	167,914	974,927
Due to State of North Carolina Component Units				172,541	887,747
Other Liabilities					
Total Liabilities	19,634,927	1,131,987,131	28,492,824	1,220,266	27,357,824
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	272	0	4,050	540,662	898,682
FUND BALANCES					
Nonspendable	225,646	10,977	11,706	11,050	3,397,362
Restricted for Health and Human Services		26,585,572	629,598	22,830,486	2,219,616
Committed to Health and Human Services	18,388,676		328,240	4,756,194	2,488,853
Assigned to Health and Human Services	4,181,805				
Unassigned	13,034,436	(384,599,911)	(10,746,580)		(3,155)
Total Fund Balances	35,830,563	(358,003,362)	(9,777,036)	27,597,730	8,102,676
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 55,465,762	\$ 773,983,769	\$ 18,719,838	\$ 29,358,658	\$ 36,359,182

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

Aging (6)	Blind/ Deaf Services (7)	Vocational Rehabilitation (8)	Social Services (9)	Mental Health (10)	Health Benefits (11)	Total Governmental Funds 2017	Total Governmental Funds 2016 (Restated)
\$ 0	\$ 16,406,780	\$ 2,649,527	\$ 3,637,557	\$ 55,857,170	\$ 0	\$ 174,414,994	\$ 166,413,147
	411,237	38,435	5,618,395	29,236,095		102,387,800	88,040,451
4,465,541	620,244	5,011,746	82,370,580	7,638,108	134,091	847,190,219	812,277,961
			159,768	8,535		501,264	2,410,449
1,948	33,198	256,519	12,369	5,622,162	10,203	9,593,140	10,623,786
4,467,489	17,471,459	7,956,227	91,798,669	98,362,070	144,294	1,134,087,417	1,079,765,794
0	0	0	0	0	0	0	0
<u>\$ 4,467,489</u>	<u>\$ 17,471,459</u>	<u>\$ 7,956,227</u>	<u>\$ 91,798,669</u>	<u>\$ 98,362,070</u>	<u>\$ 144,294</u>	<u>\$ 1,134,087,417</u>	<u>\$ 1,079,765,794</u>
\$ 215,895	\$ 827,751	\$ 6,629,678	\$ 6,375,463	\$ 42,333,123	\$ 930,409	\$ 99,190,847	\$ 94,989,756
6,718,124	219,237	876,829	85,327,139	8,810,623		271,915,592	229,794,636
	143,382	486,996		8,445,924		998,428,239	962,517,517
13,464	42,512	335,822	168,733	3,438,101	82,850	10,520,061	18,682,163
	11,550	21,877	1,659,249	1,213,913		3,966,877	1,364,854
		312		4,197		4,509	4,197
6,947,483	1,244,432	8,351,514	93,530,584	64,245,881	1,013,259	1,384,026,125	1,307,353,123
0	3	0	260,790	8,804,292	0	10,508,751	5,430,130
1,948	33,198	256,519	12,369	5,622,162	10,203	9,593,140	10,623,786
	24,369		1,356,102	1,165,510		54,811,253	68,666,281
	16,578,165	2,643,375	1,705,365	53,333,596		100,222,464	79,741,741
	8,704			1,210,675		5,401,184	4,882,171
(2,481,942)	(417,412)	(3,295,181)	(5,066,541)	(36,020,046)	(879,168)	(430,475,500)	(396,931,438)
(2,479,994)	16,227,024	(395,287)	(1,992,705)	25,311,897	(868,965)	(260,447,459)	(233,017,459)
<u>\$ 4,467,489</u>	<u>\$ 17,471,459</u>	<u>\$ 7,956,227</u>	<u>\$ 91,798,669</u>	<u>\$ 98,362,070</u>	<u>\$ 144,294</u>	<u>\$ 1,134,087,417</u>	<u>\$ 1,079,765,794</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, 2017 (With Comparative Totals for June 30, 2016)

	Central Administration (1)	Medical Assistance (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)
REVENUES					
Federal Funds	\$ 143,347,869	\$ 8,837,591,524	\$ 361,556,825	\$ 29,619,212	\$ 461,082,917
Local Funds	272,331			485,876	5,506,205
Sales and Services, Net				316,499	1,320,223
Fees, Licenses, and Fines (Note 11)	775,152	152,267,617	2,026,954	16,646,994	16,004,105
Revenues from Other State Agencies (Note 12)	1,754,578	6,434	78,253,529	511,736	2,706,408
Miscellaneous Revenues	439,031	47,494,005	20,401	124,317	70,683,200
Total Revenues	146,588,961	9,037,359,580	441,857,709	47,704,634	557,303,058
EXPENDITURES					
Personal Services	69,473,220	29,879,213	18,037,354	42,514,205	123,208,195
Contracted Personal Services	114,314,879	121,523,496	7,849,371	3,288,219	37,087,736
Supplies and Materials	5,874,542	110,737	86,466	367,662	4,967,344
Travel	382,662	178,895	456,404	1,617,808	2,121,099
Communication	1,621,657	301,144	223,499	575,061	2,100,199
Utilities	3,209,760	9		16,445	181,230
Data Processing Services	21,168,621	1,133	836,616	10,235	218,859
Other Services	580,301	410,719	206,505	335,477	4,002,411
Other Fixed Charges	7,650,823	79,262	2,147,078	304,241	2,043,147
Capital Outlay	17,031,250	286,646	221,374	1,188,823	6,321,531
Grants, State Aid, and Subsidies (Exhibit D-1)	27,155,575	12,169,202,809	641,483,332	4,917,721	530,130,789
Expenditures to Other State Agencies (Note 12)	3,248,059	178,618,889		2,838,531	
Other Expenditures	2,567,714	866,097	4,067,737	1,430,509	8,338,371
Total Expenditures	274,279,063	12,501,459,049	675,615,736	59,404,937	720,720,911
Excess of Revenues Over (Under) Expenditures	(127,690,102)	(3,464,099,469)	(233,758,027)	(11,700,303)	(163,417,853)
OTHER FINANCING SOURCES (USES)					
State Appropriations	112,158,656	3,516,049,313	232,928,695	15,653,331	165,280,261
Transfers In (Note 13 & Exhibit Q-1)	32,671,993	159,594,849		701,467	12,778,577
Transfers Out (Note 13 & Exhibit Q-1)	(13,967,455)	(232,520,683)	(3,633,962)	(1,201,468)	(16,071,723)
Transfers from State Reserve Fund	3,125,290	112,720,747	478,688	664,201	2,126,659
Transfers to State Reserve Fund	(4,341,679)	(113,438,049)		(482,370)	(724,428)
Other	76	(74,069)			14,936
Total Other Financing Sources	129,646,881	3,442,332,108	229,773,421	15,335,161	163,404,282
Net Change in Fund Balances	1,956,779	(21,767,361)	(3,984,606)	3,634,858	(13,571)
Fund Balances - Beginning of Year, as Restated	33,873,784	(336,236,001)	(5,792,430)	23,962,872	8,116,247
Fund Balances - End of Year	\$ 35,830,563	\$ (358,003,362)	\$ (9,777,036)	\$ 27,597,730	\$ 8,102,676

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

Aging (6)	Blind/ Deaf Services (7)	Vocational Rehabilitation (8)	Social Services (9)	Mental Health (10)	Health Benefits (11)	Total Governmental Funds 2017	Total Governmental Funds 2016 (Restated)
\$ 52,393,561	\$ 15,183,480	\$ 146,540,090	\$ 3,079,283,879	\$ 452,920,080	\$ 134,091	\$ 13,579,653,528	\$ 13,305,484,355
9,685,241	602,205	2,653,847	113,449,740	1,943,173		134,598,618	149,461,682
	1,061,070	635,712		52,171,759		55,505,263	61,083,763
24,273	3,145,289		361,074	661,743		191,913,201	188,577,117
	9,934,272		20,565	33,389,502		126,577,024	152,079,291
149,047	336,228	3,380,814	10,392,792	14,402,451	41	147,422,327	126,462,726
62,252,122	30,262,544	153,210,463	3,203,508,050	555,488,708	134,132	14,235,669,961	13,983,148,934
5,307,845	18,672,936	94,790,375	24,370,149	646,035,587	1,777,001	1,074,066,080	1,033,138,066
1,581,332	3,562,371	24,314,272	13,469,764	58,523,318	7,087,917	392,602,675	332,840,541
30,223	308,055	774,461	104,877	42,074,085	15,945	54,714,397	53,586,311
143,974	637,695	1,007,720	865,252	575,567	16,731	8,003,807	7,972,082
40,557	361,475	1,518,980	642,327	2,236,292	1,559	9,622,750	9,909,837
	15,357	393,251	312	12,970,535		16,786,899	16,322,464
	316		127,933	22		22,363,735	22,175,494
25,229	556,997	653,465	5,498,567	2,756,138	64,377	15,090,186	13,786,130
18,578	73,221	281,895	156,159	5,019,290	5,020	17,778,714	17,307,064
37,561	533,433	1,086,430	287,994	39,268,405	295,820	66,559,267	56,671,469
98,379,870	10,328,666	61,067,279	3,355,689,515	387,300,387		17,285,655,943	16,950,051,913
294,138		213	262,410	7,575,719		192,837,959	175,358,122
136,864	1,250,690	7,098,507	561,285	14,925,724	10,490	41,253,988	45,874,601
105,996,171	36,301,212	192,986,848	3,402,036,544	1,219,261,069	9,274,860	19,197,336,400	18,734,994,094
(43,744,049)	(6,038,668)	(39,776,385)	(198,528,494)	(663,772,361)	(9,140,728)	(4,961,666,439)	(4,751,845,160)
43,901,250	7,702,995	36,232,523	193,711,998	593,916,275	9,686,546	4,927,221,843	4,837,156,439
330,934	12,735,210	2,316,787	9,409,165	242,504,661		473,043,643	445,466,619
(812)	(14,240,749)	(1,037,019)	(8,918,743)	(181,451,029)		(473,043,643)	(445,466,619)
144,138			125,933	59,779,636	5,103,901	184,269,193	
(41,409)			(1,545,539)	(51,699,493)	(5,727,033)	(178,000,000)	(185,248,059)
	37,074	12,694		754,692		745,403	2,035,069
44,334,101	6,234,530	37,524,985	192,782,814	663,804,742	9,063,414	4,934,236,439	4,653,943,449
590,052	195,862	(2,251,400)	(5,745,680)	32,381	(77,314)	(27,430,000)	(97,901,711)
(3,070,046)	16,031,162	1,856,113	3,752,975	25,279,516	(791,651)	(233,017,459)	(135,115,748)
\$ (2,479,994)	\$ 16,227,024	\$ (395,287)	\$ (1,992,705)	\$ 25,311,897	\$ (868,965)	\$ (260,447,459)	\$ (233,017,459)

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, 2017 (With Comparative Totals for June 30, 2016)

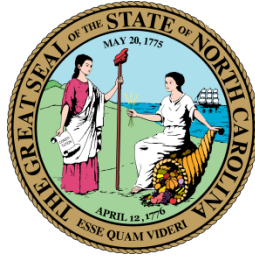
	Central Administration	Medical Assistance (1)	Child Development (2)	Health Service Regulation
GRANTS, STATE AID, AND SUBSIDIES				
Medical Assistance:				
Managed Care	\$ 0	\$ 2,513,815,719	\$ 0	\$ 0
Supplemental Expenditures		2,274,955,719		
Skilled Nursing Facilities and Personal Care		1,287,857,063		
Physician Services		1,486,623,101		
Medical Services		1,520,486,368		
Hospital		1,097,585,986		
Pharmacy Services (Net of Rebates)		708,927,472		
Buy-In / Dual Eligible Expenditures		852,478,656		
Dental		386,768,549		
Other Medical Assistance		39,704,176		
Total Medical Assistance	0	12,169,202,809	0	0
Social Service Programs:				
Food and Nutrition				
Child and Family			519,032,177	
Smart Start Programs			122,451,155	
Support of Aging and Adult Programs				
Support of Medicaid Programs				
Other Social Service Programs				
Total Social Service Programs	0	0	641,483,332	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	27,155,575	0	0	4,917,721
Total Grants, State Aid, and Subsidies Expenditures	\$ 27,155,575	\$ 12,169,202,809	\$ 641,483,332	\$ 4,917,721

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

Public Health (3)	Aging	Blind/Deaf Services	Vocational Rehabilitation	Social Services (4)	Mental Health (5)	Total Governmental Funds 2017	Total Governmental Funds 2016
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,513,815,719	\$ 2,496,912,303
						2,274,955,719	2,265,144,113
						1,287,857,063	1,335,757,788
						1,486,623,101	1,420,416,442
						1,520,486,368	1,416,790,741
						1,097,585,986	860,539,454
						708,927,472	744,256,301
						852,478,656	777,312,812
						386,768,549	382,355,194
						39,704,176	31,664,051
0	0	0	0	0	0	12,169,202,809	11,731,149,199
342,773,353				2,259,526,488		2,602,299,841	2,750,680,242
75,732,061				577,069,896		1,171,834,134	1,138,374,338
				140,297,610		122,451,155	123,316,915
				231,935,233		140,297,610	148,962,326
				146,860,288		231,935,233	228,464,902
						146,860,288	146,402,103
418,505,414	0	0	0	3,355,689,515	0	4,415,678,261	4,536,200,826
82,332,221						82,332,221	74,862,359
19,604,102						19,604,102	19,241,971
4,292,285						4,292,285	4,331,411
5,396,767						5,396,767	3,362,752
111,625,375	0	0	0	0	0	111,625,375	101,798,493
0	0	0	0	0	387,300,387	387,300,387	382,635,607
0	98,379,870	10,328,666	61,067,279	0	0	201,849,111	198,267,788
\$ 530,130,789	\$ 98,379,870	\$ 10,328,666	\$ 61,067,279	\$ 3,355,689,515	\$ 387,300,387	\$ 17,285,655,943	\$ 16,950,051,913



FINANCIAL STATEMENTS BY DIVISION

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Central Administration
June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit E-1

	General Fund	Capital Projects Fund	Total Central Administration 2017	Total Central Administration 2016
ASSETS				
Cash and Cash Equivalents	\$ 37,619,654	\$ 1,565,047	\$ 39,184,701	\$ 36,207,019
Receivables:				
Accounts Receivable, Net	8,715		8,715	4,021
Intergovernmental Receivables	15,812,550		15,812,550	11,160,326
Due from Other Funds	234,150		234,150	408,870
Inventories	225,646		225,646	5,074,840
Total Assets	53,900,715	1,565,047	55,465,762	52,855,076
DEFERRED OUTFLOWS OF RESOURCES				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 53,900,715	\$ 1,565,047	\$ 55,465,762	\$ 52,855,076
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 14,735,379	\$ 0	\$ 14,735,379	\$ 5,445,950
Intergovernmental Payables	97,387		97,387	8,965,188
Due to Other State Agencies and Funds	4,802,161		4,802,161	4,566,694
Total Liabilities	19,634,927	0	19,634,927	18,977,832
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	272	0	272	3,460
FUND BALANCES				
Nonspendable	225,646		225,646	5,074,840
Committed to Health and Human Services	16,823,629	1,565,047	18,388,676	19,304,237
Assigned to Health and Human Services	4,181,805		4,181,805	3,766,681
Unassigned	13,034,436		13,034,436	5,728,026
Total Fund Balances	34,265,516	1,565,047	35,830,563	33,873,784
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 53,900,715	\$ 1,565,047	\$ 55,465,762	\$ 52,855,076

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit E-2

	General Fund	Capital Projects Fund	Total Central Administration 2017	Total Central Administration 2016
REVENUES				
Federal Funds	\$ 143,347,869	\$ 0	\$ 143,347,869	\$ 109,349,098
Local Funds	272,331		272,331	725,803
Fees, Licenses, and Fines	775,152		775,152	703,125
Revenues from Other State Agencies	1,684,976	69,602	1,754,578	3,799,120
Miscellaneous Revenues	439,031		439,031	2,565,129
Total Revenues	146,519,359	69,602	146,588,961	117,142,275
EXPENDITURES				
Personal Services	69,473,220		69,473,220	65,754,073
Contracted Personal Services	114,314,879		114,314,879	79,279,740
Supplies and Materials	5,874,542		5,874,542	992,238
Travel	382,662		382,662	320,544
Communication	1,621,657		1,621,657	1,505,417
Utilities	3,209,760		3,209,760	3,196,022
Data Processing Services	21,168,621		21,168,621	20,390,727
Other Services	580,301		580,301	608,508
Other Fixed Charges	7,650,823		7,650,823	7,249,283
Capital Outlay	16,953,475	77,775	17,031,250	4,462,815
Grants, State Aid, and Subsidies	27,155,575		27,155,575	23,860,145
Expenditures to Other State Agencies	3,248,059		3,248,059	3,337,869
Other Expenditures	2,567,714		2,567,714	3,154,441
Total Expenditures	274,201,288	77,775	274,279,063	214,111,822
Excess of Revenues Over (Under) Expenditures	(127,681,929)	(8,173)	(127,690,102)	(96,969,547)
OTHER FINANCING SOURCES (USES)				
State Appropriations	111,708,656	450,000	112,158,656	93,707,647
Transfers In	32,671,993		32,671,993	25,692,381
Transfers Out	(13,967,455)		(13,967,455)	(14,585,940)
Transfers from State Reserve Fund	3,125,290		3,125,290	
Transfers to State Reserve Fund	(4,341,679)		(4,341,679)	(3,125,290)
Other	76		76	67
Total Other Financing Sources	129,196,881	450,000	129,646,881	101,688,865
Net Change in Fund Balances	1,514,952	441,827	1,956,779	4,719,318
Fund Balances - Beginning of Year	32,750,564	1,123,220	33,873,784	29,154,466
Fund Balances - End of Year	\$ 34,265,516	\$ 1,565,047	\$ 35,830,563	\$ 33,873,784

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, 2017

Exhibit E-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 17,345,558	\$ 15,806,936	\$ 16,992,672	\$ 1,185,736
Title IV-D / Child Support	9,637,357	5,505,672	4,316,864	(1,188,808)
Other Federal Grants	44,243,389	38,865,344	27,329,989	(11,535,355)
Local Grants	1,078,152	812,304	476,911	(335,393)
Sales, Services, and Rentals	40,165	13,875	9,222	(4,653)
Miscellaneous Revenues	559,374	1,717,965	1,929,060	211,095
Total Revenues	72,903,995	62,722,096	51,054,718	(11,667,378)
EXPENDITURES				
Personal Services	72,974,748	65,602,247	62,060,190	3,542,057
Purchased Services	53,847,860	49,080,377	47,188,393	1,891,984
Supplies	1,395,227	1,131,981	1,023,105	108,876
Property, Plant, and Equipment	731,315	5,797,681	5,752,760	44,921
Other Expenditures and Adjustments	491,312	1,841,545	1,772,041	69,504
Aid and Public Assistance	25,299,517	29,455,907	27,352,773	2,103,134
Reserves	23,177,969	1,658,795	3,711	1,655,084
Total Expenditures	177,917,948	154,568,533	145,152,973	9,415,560
Excess of Revenues Over (Under) Expenditures	(105,013,953)	(91,846,437)	(94,098,255)	(2,251,818)
OTHER FINANCING SOURCES (USES)				
State Appropriations	113,644,316	113,382,952	111,708,656	(1,674,296)
Transfers from Other Departments or Funds	17,792,624	22,670,906	21,524,726	(1,146,180)
Transfers to Other Department or Funds	(26,422,987)	(44,207,421)	(39,135,127)	5,072,294
Total Other Financing Sources	105,013,953	91,846,437	94,098,255	2,251,818
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	16,055,415
Payables	(19,634,927)
Deferred Inflows	(272)
Total Basis Differences	(3,579,784)
Other Adjustments:	
Cash	37,619,654
Inventories	225,646
Fund Balance (GAAP Basis) June 30, 2017	\$ 34,265,516

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, 2017

Exhibit E-4

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 62,527,743	\$ 92,038,806	\$ 75,953,463	\$ (16,085,343)
Other Federal Grants	6,914,837	6,940,132	10,423,985	3,483,853
Miscellaneous Revenues			(103,259)	(103,259)
Total Revenues	69,442,580	98,978,938	86,274,189	(12,704,749)
EXPENDITURES				
Personal Services	12,646,098	10,538,362	7,416,424	3,121,938
Purchased Services	73,481,345	119,626,227	95,074,004	24,552,223
Supplies	20,452	20,669	10,412	10,257
Property, Plant, and Equipment	15,452,155	15,686,452	10,208,398	5,478,054
Reserves	750,000	10,567,880		10,567,880
Other Expenditures and Adjustments	82,974	82,974	5,033	77,941
Total Expenditures	102,433,024	156,522,564	112,714,271	43,808,293
Excess of Revenues Over (Under) Expenditures	(32,990,444)	(57,543,626)	(26,440,082)	31,103,544
OTHER FINANCING SOURCES (USES)				
Transfers from Other Departments or Funds	33,011,745	38,924,435	33,906,857	(5,017,578)
Transfers to Other Department or Funds	(21,662)	(184,362)	(4,254)	180,108
Total Other Financing Sources	32,990,083	38,740,073	33,902,603	(4,837,470)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (361)	\$ (18,803,553)	\$ 7,462,521	\$ 26,266,074

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Medical Assistance
June 30, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit F-1

	General Fund	
	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 26,719,439	\$ 46,061,452
Receivables:		
Accounts Receivable, Net	61,701,342	52,810,024
Intergovernmental Receivables	685,524,255	646,289,199
Due from Other Funds	27,756	1,460,708
Inventories	10,977	
Total Assets	773,983,769	746,621,383
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	\$ 773,983,769	\$ 746,621,383
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 7,097,466	\$ 29,903,704
Intergovernmental Payables	135,414,002	94,093,066
Medical Claims Payable	989,113,616	951,283,331
Due to Other State Agencies and Funds	362,047	7,577,283
Total Liabilities	1,131,987,131	1,082,857,384
DEFERRED INFLOWS OF RESOURCES	0	0
FUND BALANCE		
Nonspendable	10,977	
Restricted for Health and Human Services	26,585,572	40,860,800
Unassigned	(384,599,911)	(377,096,801)
Total Fund Balance	(358,003,362)	(336,236,001)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 773,983,769	\$ 746,621,383

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, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit F-2

	General Fund	
	2017	2016
REVENUES		
Federal Funds	\$ 8,837,591,524	\$ 8,461,684,819
Fees, Licenses, and Fines	152,267,617	153,828,625
Revenues from Other State Agencies	6,434	
Miscellaneous Revenues	47,494,005	12,781,960
Total Revenues	9,037,359,580	8,628,295,404
EXPENDITURES		
Personal Services	29,879,213	27,536,715
Contracted Personal Services	121,523,496	121,517,543
Supplies and Materials	110,737	105,398
Travel	178,895	205,303
Communication	301,144	341,097
Utilities	9	
Data Processing Services	1,133	
Other Services	410,719	396,098
Other Fixed Charges	79,262	1,285,431
Capital Outlay	286,646	262,236
Grants, State Aid, and Subsidies (Exhibit F-5)	12,169,202,809	11,731,149,199
Expenditures to Other State Agencies	178,618,889	165,329,139
Other Expenditures	866,097	794,280
Total Expenditures	12,501,459,049	12,048,922,439
Excess of Revenues Over (Under) Expenditures	(3,464,099,469)	(3,420,627,035)
OTHER FINANCING SOURCES (USES)		
State Appropriations	3,516,049,313	3,503,925,211
Transfers In	159,594,849	159,741,900
Transfers Out	(232,520,683)	(238,380,857)
Transfers from State Reserve Fund	112,720,747	
Transfers to State Reserve Fund	(113,438,049)	(112,720,747)
Other	(74,069)	(19,667)
Total Other Financing Sources	3,442,332,108	3,312,545,840
Net Change in Fund Balance	(21,767,361)	(108,081,195)
Fund Balance - Beginning of Year	(336,236,001)	(228,154,806)
Fund Balance - End of Year	<u>\$ (358,003,362)</u>	<u>\$ (336,236,001)</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, 2017

Exhibit F-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Program	\$ 8,821,525,268	\$ 8,874,965,323	\$ 8,597,136,271	\$ (277,829,052)
Medical Assistance Administration and Training	117,821,078	112,378,487	100,852,804	(11,525,683)
CHIP	412,008,134	420,011,652	460,519,537	40,507,885
Other Federal Grants	79,240,520	61,741,991	52,821,845	(8,920,146)
Provider Match	369,757,571	354,274,827	349,212,205	(5,062,622)
Sales, Services, and Rentals	264,317	14,317	10,643	(3,674)
Fees, Licenses, and Fines	772,597,345	765,730,251	765,610,554	(119,697)
Investment Income		2,000	528,599	526,599
Miscellaneous	(215,740,678)	(190,820,245)	(131,939,552)	58,880,693
Total Revenues	10,357,473,555	10,398,298,603	10,194,752,906	(203,545,697)
EXPENDITURES				
Personal Services	35,757,440	30,877,353	29,854,263	1,023,090
Purchased Services	118,576,582	122,769,749	121,253,042	1,516,707
Supplies	219,331	134,928	134,087	841
Property, Plant, and Equipment	289,843	302,554	297,717	4,837
Other Expenditures and Adjustments	914,989	1,440,889	1,375,184	65,705
Aid and Public Assistance	14,068,770,918	14,140,079,260	13,865,522,309	274,556,951
Reserves	278,499	26,455,592		26,455,592
Total Expenditures	14,224,807,602	14,322,060,325	14,018,436,602	303,623,723
Excess of Revenues Over (Under) Expenditures	(3,867,334,047)	(3,923,761,722)	(3,823,683,696)	100,078,026
OTHER FINANCING SOURCES (USES)				
State Appropriations	3,602,396,273	3,602,121,632	3,516,049,313	(86,072,319)
Transfers from Other Departments or Funds	497,109,305	665,343,478	650,832,201	(14,511,277)
Transfers to Other Departments or Funds	(232,171,531)	(343,703,388)	(343,197,818)	505,570
Total Other Financing Sources	3,867,334,047	3,923,761,722	3,823,683,696	(100,078,026)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	747,253,353
Payables	(1,131,987,131)
Total Basis Differences	(384,733,778)
Other Adjustments:	
Cash	26,719,439
Inventories	10,977
Fund Balance (GAAP Basis) June 30, 2017	\$ (358,003,362)

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, 2017

Exhibit F-4

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Miscellaneous Revenues	\$ 233,811,100	\$ 215,000,000	\$ 175,453,921	\$ (39,546,079)
Total Revenues	233,811,100	215,000,000	175,453,921	(39,546,079)
EXPENDITURES				
Purchased Services		509,822	241,152	268,670
Other Expenditures and Adjustments		10,050	5,215	4,835
Total Expenditures	0	519,872	246,367	273,505
Excess of Revenues Over (Under) Expenditures	233,811,100	214,480,128	175,207,554	(39,272,574)
OTHER FINANCING SOURCES (USES)				
State Appropriations		(589,501)	19,342,013	19,931,514
Transfers from Other Departments of Funds		1,218,501	1,218,501	
Transfers to Other Departments or Funds	(233,811,100)	(215,109,128)	(195,768,068)	19,341,060
Total Other Financing Uses	(233,811,100)	(214,480,128)	(175,207,554)	39,272,574
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

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, 2017
(With Comparative Amounts for June 30, 2016)

Exhibit F-5

GRANTS, STATE AID, AND SUBSIDIES	2017	2016
Managed Care ¹	\$ 2,513,815,719	\$ 2,496,912,303
Supplemental Expenditures:		
Gap Payment - Upper Payment Limit	784,756,703	822,667,244
Gap Payment - Equity Payment	565,656,876	581,989,534
Disproportionate Share Hospital Payment	367,074,552	409,734,981
Enhanced Payment	557,467,588	450,752,354
Total Supplemental Expenditures	2,274,955,719	2,265,144,113
Skilled Nursing Facilities and Personal Care:		
Skilled Nursing Facilities	864,915,692	882,131,243
Personal Care Services	422,941,371	453,626,545
Total Skilled Nursing Facilities and Personal Care	1,287,857,063	1,335,757,788
Physician Services:		
Physician Services	1,027,014,322	1,006,501,729
Clinics	249,303,302	210,239,271
Community Care of NC (N3CN)	210,305,477	203,675,442
Total Physician Services	1,486,623,101	1,420,416,442
Medical Services:		
Client Assistant Program (CAP)	350,243,006	344,371,325
Equipment	222,700,222	217,178,488
Health Check	96,055,976	95,930,799
Transport	230,763,249	143,594,410
Short Term Care	152,422,918	135,819,913
Non-Physician Services	143,695,192	135,099,175
Standalone Lab/X-Ray	98,479,421	98,382,750
Hospice	72,218,734	68,484,661
Case Management	1,631,092	1,432,127
Medical - General	147,575,734	172,750,665
Family Planning	4,700,824	3,746,428
Total Medical Services	1,520,486,368	1,416,790,741
Hospital:		
Hospital - Outpatient	456,551,355	433,368,299
Hospital - Inpatient	253,571,282	49,934,414
Emergency Room	387,463,349	377,236,741
Total Hospital	1,097,585,986	860,539,454
Prescribed Drugs:		
Pharmacy Services	1,900,559,408	1,834,023,051
Less Rebates	(1,191,631,936)	(1,089,766,750)
Total Prescribed Drugs (Net of Rebates)	708,927,472	744,256,301
Buy-In / Dual Eligible Expenditures:		
Medicare Part A	44,515,387	48,163,308
Medicare Part B	509,534,134	445,817,265
Medicare Part D	298,429,135	283,332,239
Total Buy-In / Dual Eligible Expenditures	852,478,656	777,312,812
Dental	386,768,549	382,355,194
Other Medical Assistance:		
Health Information Technology Funding	39,704,176	31,544,350
Miscellaneous		119,701
Total Other Medical Assistance	39,704,176	31,664,051
Total Grants, State Aid, and Subsidies Expenditures	\$ 12,169,202,809	\$ 11,731,149,199

¹ 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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit G-1

	General Fund	Capital Projects Fund	Total Child Development 2017	Total Child Development 2016
ASSETS				
Cash and Cash Equivalents	\$ 0	\$ 328,240	\$ 328,240	\$ 480,788
Receivables:				
Accounts Receivable, Net	647,095		647,095	488,741
Intergovernmental Receivables	17,732,797		17,732,797	29,050,266
Inventories	11,706		11,706	
Total Assets	18,391,598	328,240	18,719,838	30,019,795
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	\$ 18,391,598	\$ 328,240	\$ 18,719,838	\$ 30,019,795
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 478,696	\$ 0	\$ 478,696	\$ 912,105
Intergovernmental Payables	27,882,598		27,882,598	34,500,834
Due to Other State Agencies and Funds	131,530		131,530	244,836
Due to State of North Carolina Component Units				149,416
Total Liabilities	28,492,824	0	28,492,824	35,807,191
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	4,050	0	4,050	5,034
FUND BALANCES				
Nonspendable	11,706		11,706	
Restricted for Health and Human Services	629,598		629,598	462,215
Committed to Health and Human Services		328,240	328,240	449,111
Unassigned	(10,746,580)		(10,746,580)	(6,703,756)
Total Fund Balances	(10,105,276)	328,240	(9,777,036)	(5,792,430)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 18,391,598	\$ 328,240	\$ 18,719,838	\$ 30,019,795

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit G-2

	General Fund	Capital Projects Fund	Total Child Development 2017	Total Child Development 2016
REVENUES				
Federal Funds	\$ 361,556,825	\$ 0	\$ 361,556,825	\$ 373,670,085
Fees, Licenses, and Fines	2,026,954		2,026,954	2,012,479
Revenues from Other State Agencies	78,253,529		78,253,529	78,257,317
Miscellaneous Revenues	20,401		20,401	4,794
Total Revenues	441,857,709	0	441,857,709	453,944,675
EXPENDITURES				
Personal Services	18,037,354		18,037,354	17,320,894
Contracted Personal Services	7,849,371		7,849,371	4,616,572
Supplies and Materials	86,466		86,466	81,625
Travel	456,404		456,404	387,270
Communication	223,499		223,499	177,108
Data Processing Services	836,616		836,616	1,457,379
Other Services	206,505		206,505	449,843
Other Fixed Charges	2,147,078		2,147,078	146,961
Capital Outlay	100,503	120,871	221,374	559,404
Grants, State Aid, and Subsidies (Exhibit G-4)	641,483,332		641,483,332	638,431,169
Other Expenditures:				
Scholarships	3,584,771		3,584,771	3,499,043
Other	482,966		482,966	445,356
Total Expenditures	675,494,865	120,871	675,615,736	667,572,624
Excess of Revenues Over (Under) Expenditures	(233,637,156)	(120,871)	(233,758,027)	(213,627,949)
OTHER FINANCING SOURCES (USES)				
State Appropriations	232,928,695		232,928,695	226,298,914
Transfers Out	(3,633,962)		(3,633,962)	(5,684,121)
Transfers from State Reserve Fund	478,688		478,688	
Transfers to State Reserve Fund				(478,688)
Other				85,000
Total Other Financing Sources	229,773,421	0	229,773,421	220,221,105
Net Change in Fund Balances	(3,863,735)	(120,871)	(3,984,606)	6,593,156
Fund Balances - Beginning of Year	(6,241,541)	449,111	(5,792,430)	(12,385,586)
Fund Balances - End of Year	<u>\$ (10,105,276)</u>	<u>\$ 328,240</u>	<u>\$ (9,777,036)</u>	<u>\$ (5,792,430)</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 Child Development and Early Education
For the Fiscal Year Ended June 30, 2017

Exhibit G-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child Care Development Funds	\$ 150,999,579	\$ 102,912,131	\$ 52,687,408	\$ (50,224,723)
TANF	164,339,345	164,339,345	164,342,726	3,381
Other Federal Grants	56,833,269	123,614,805	157,695,698	34,080,893
Sales, Services, and Rentals	44,929			
Fees, Licenses, and Fines	2,082,392	2,103,755	1,983,195	(120,560)
Miscellaneous Revenues		384,897	412,990	28,093
Total Revenues	374,299,514	393,354,933	377,122,017	(16,232,916)
EXPENDITURES				
Personal Services	21,232,492	20,430,045	18,040,036	2,390,009
Purchased Services	4,927,193	13,124,189	12,137,461	986,728
Supplies	97,969	116,225	95,432	20,793
Property, Plant, and Equipment	37,555	107,600	96,869	10,731
Other Expenditures and Adjustments	117,471	495,581	484,655	10,926
Aid and Public Assistance	647,254,228	662,125,319	654,285,171	7,840,148
Reserves	10,398,043	7,094,547		7,094,547
Total Expenditures	684,064,951	703,493,506	685,139,624	18,353,882
Excess of Revenues Over (Under) Expenditures	(309,765,437)	(310,138,573)	(308,017,607)	2,120,966
OTHER FINANCING SOURCES (USES)				
State Appropriations	235,331,780	235,324,729	232,928,695	(2,396,034)
Transfers from Other Departments or Funds	78,255,472	78,732,217	78,732,217	
Transfers to Other Departments or Funds	(3,821,815)	(3,918,373)	(3,643,305)	275,068
Total Other Financing Sources	309,765,437	310,138,573	308,017,607	(2,120,966)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	18,379,892
Payables	(28,492,824)
Deferred Inflows	(4,050)
Total Basis Differences	(10,116,982)
Other Adjustments:	
Inventories	11,706
Fund Balance (GAAP Basis) June 30, 2017	\$ (10,105,276)

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, 2017
(With Comparative Amounts for June 30, 2016)

Exhibit G-4

GRANTS, STATE AID, AND SUBSIDIES	2017	2016
Child and Family:		
Subsidized Child Care Services	\$ 361,323,809	\$ 355,131,257
Pre-K Services	155,375,343	154,771,413
Race to the Top	2,333,025	5,211,584
Total Child and Family	519,032,177	515,114,254
Smart Start Programs:		
Smart Start Subsidized Child Care Services	18,523,651	18,572,026
Smart Start Child Care Related Activities	103,927,504	104,744,889
Total Smart Start Programs	122,451,155	123,316,915
Total Grants, State Aid, and Subsidies Expenditures	\$ 641,483,332	\$ 638,431,169

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Health Service Regulation
June 30, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit H-1

	General Fund	
	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 27,165,666	\$ 23,965,893
Receivables:		
Accounts Receivable, Net	562,614	820,151
Intergovernmental Receivables	1,565,649	1,253,230
Due from Other Funds	53,679	1,897
Inventories	11,050	
Total Assets	29,358,658	26,041,171
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	\$ 29,358,658	\$ 26,041,171
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 867,477	\$ 942,015
Intergovernmental Payables	12,334	89,505
Due to Other State Agencies and Funds	167,914	280,546
Due to State of North Carolina Component Units	172,541	57,300
Total Liabilities	1,220,266	1,369,366
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	540,662	708,933
FUND BALANCE		
Nonspendable	11,050	
Restricted for Health and Human Services	22,830,486	18,755,381
Committed to Health and Human Services	4,756,194	5,210,512
Unassigned		(3,021)
Total Fund Balance	27,597,730	23,962,872
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 29,358,658	\$ 26,041,171

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, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit H-2

	General Fund	
	2017	2016
REVENUES		
Federal Funds	\$ 29,619,212	\$ 29,729,391
Local Funds	485,876	487,954
Sales and Services, Net	316,499	430,403
Fees, Licenses, and Fines	16,646,994	16,450,454
Revenues from Other State Agencies	511,736	335,911
Miscellaneous Revenues	124,317	
Total Revenues	47,704,634	47,434,113
EXPENDITURES		
Personal Services	42,514,205	40,756,357
Contracted Personal Services	3,288,219	2,845,876
Supplies and Materials	367,662	240,893
Travel	1,617,808	1,857,555
Communication	575,061	578,501
Utilities	16,445	68,228
Data Processing Services	10,235	10,835
Other Services	335,477	351,951
Other Fixed Charges	304,241	310,196
Capital Outlay	1,188,823	1,268,284
Grants, State Aid, and Subsidies	4,917,721	5,870,300
Expenditures to Other State Agencies	2,838,531	1,647,431
Other Expenditures	1,430,509	1,367,942
Total Expenditures	59,404,937	57,174,349
Excess of Revenues Over (Under) Expenditures	(11,700,303)	(9,740,236)
OTHER FINANCING SOURCES (USES)		
State Appropriations	15,653,331	15,367,244
Transfers In	701,467	1,959,107
Transfers Out	(1,201,468)	(2,659,107)
Transfers from State Reserve Fund	664,201	
Transfers to State Reserve Fund	(482,370)	(673,832)
Total Other Financing Sources	15,335,161	13,993,412
Net Change in Fund Balance	3,634,858	4,253,176
Fund Balance - Beginning of Year	23,962,872	19,709,696
Fund Balance - End of Year	\$ 27,597,730	\$ 23,962,872

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, 2017

Exhibit H-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medicare	\$ 8,517,021	\$ 9,800,049	\$ 9,037,053	\$ (762,996)
Health Standard Quality Bureau	6,393,004	6,355,846	5,995,660	(360,186)
Medical Assistance Administration and Training	6,080,569	6,135,375	5,840,676	(294,699)
HRSA - Bioterrorism Hospital	13,632,540	7,374,976	6,458,812	(916,164)
Other	1,934,901	6,875,386	1,882,794	(4,992,592)
Local Grants	968,450	933,450	739,169	(194,281)
Sales, Services, and Rentals	516,274	475,984	413,932	(62,052)
Fees, Licenses, and Fines	10,247,051	12,659,509	11,583,053	(1,076,456)
Miscellaneous Revenues	1,967,676	1,280,304	1,467,249	186,945
Total Revenues	50,257,486	51,890,879	43,418,398	(8,472,481)
EXPENDITURES				
Personal Services	46,226,686	44,790,920	42,530,882	2,260,038
Purchased Services	8,228,897	9,351,889	7,544,668	1,807,221
Supplies	205,382	496,209	377,324	118,885
Property, Plant, and Equipment	1,463,549	1,581,359	1,255,554	325,805
Other Expenditures and Adjustments	2,005,187	1,494,311	1,475,744	18,567
Aid and Public Assistance	9,502,177	10,547,437	5,614,390	4,933,047
Reserves	25,049	1,102,909		1,102,909
Total Expenditures	67,656,927	69,365,034	58,798,562	10,566,472
Excess of Revenues Over (Under) Expenditures	(17,399,441)	(17,474,155)	(15,380,164)	2,093,991
OTHER FINANCING SOURCES (USES)				
State Appropriations	17,047,931	17,502,516	15,653,331	(1,849,185)
Transfers from Other Departments or Funds	1,982,998	2,873,624	2,103,722	(769,902)
Transfers to Other Departments or Funds	(1,631,488)	(2,901,985)	(2,376,889)	525,096
Total Other Financing Sources	17,399,441	17,474,155	15,380,164	(2,093,991)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 GAAP financial data.

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The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
Reconciling Adjustments:	
Basis Differences:	
Receivables	2,181,942
Payables	(1,220,266)
Deferred Inflows	(540,662)
Total Basis Differences	421,014
Other Adjustments:	
Cash	27,165,666
Inventories	11,050
Fund Balance (GAAP Basis) June 30, 2017	\$ 27,597,730

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, 2017

Exhibit H-4

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Facilities Finance Act	\$ 826,586	\$ 907,263	\$ 473,126	\$ (434,137)
Federal Fines, Non-reverting	620,832		3,866,041	3,866,041
Miscellaneous Revenues			500	500
Total Revenues	1,447,418	907,263	4,339,667	3,432,404
EXPENDITURES				
Purchased Services	21,000	21,000	1,209	19,791
Supplies	8,687	8,687		8,687
Capital Outlay	33,728	33,728		33,728
Other Expenditures and Adjustments	29,000	29,000		29,000
Total Expenditures	92,415	92,415	1,209	91,206
Excess of Revenues Over (Under) Expenditures	1,355,003	814,848	4,338,458	3,523,610
OTHER FINANCING SOURCES (USES)				
Transfers from Other Departments or Funds	237,119	13		(13)
Transfers to Other Departments or Funds	(1,603,427)	(1,773,403)	(927,785)	845,618
Total Other Financing Uses	(1,366,308)	(1,773,390)	(927,785)	845,605
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (11,305)	\$ (958,542)	\$ 3,410,673	\$ 4,369,215

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Public Health
June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit I-1

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Public Health 2017	Total Public Health 2016
ASSETS					
Cash and Cash Equivalents	\$ 349,864	\$ 2,116,050	\$ 0	\$ 2,465,914	\$ 2,032,350
Receivables:					
Accounts Receivable, Net	4,158,227	5,645		4,163,872	5,637,963
Intergovernmental Receivables	26,314,658			26,314,658	29,364,898
Due from Other Funds	17,376			17,376	7,824
Inventories	3,397,362			3,397,362	
Total Assets	34,237,487	2,121,695	0	36,359,182	37,043,035
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 34,237,487	\$ 2,121,695	\$ 0	\$ 36,359,182	\$ 37,043,035
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 18,693,638	\$ 2,717	\$ 3,155	\$ 18,699,510	\$ 14,821,700
Intergovernmental Payables	6,557,319			6,557,319	11,440,708
Medical Claims Payable	238,321			238,321	251,578
Due to Other State Agencies and Funds	974,787	140		974,927	1,085,262
Due to State of North Carolina Component Units	887,747			887,747	828,696
Total Liabilities	27,351,812	2,857	3,155	27,357,824	28,427,944
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	898,682	0	0	898,682	498,844
FUND BALANCES					
Nonspendable	3,397,362			3,397,362	
Restricted for Health and Human Services	2,219,616			2,219,616	6,057,782
Committed to Health and Human Services	370,015	2,118,838		2,488,853	2,056,644
Unassigned			(3,155)	(3,155)	1,821
Total Fund Balances	5,986,993	2,118,838	(3,155)	8,102,676	8,116,247
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 34,237,487	\$ 2,121,695	\$ 0	\$ 36,359,182	\$ 37,043,035

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit I-2

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Public Health 2017	Total Public Health 2016
REVENUES					
Federal Funds	\$ 461,082,917	\$ 0	\$ 0	\$ 461,082,917	\$ 460,536,335
Local Funds	5,483,744	22,461		5,506,205	22,433,980
Sales and Services, Net	1,320,223			1,320,223	1,182,957
Fees, Licenses, and Fines	15,438,691	565,414		16,004,105	10,617,774
Revenues from Other State Agencies	2,605,887		100,521	2,706,408	2,840,641
Miscellaneous Revenues:					
Rebates	67,851,105			67,851,105	80,024,714
Contributions, Gifts, and Grants	2,337,621			2,337,621	5,106,012
Other	494,474			494,474	304,866
Total Revenues	<u>556,614,662</u>	<u>587,875</u>	<u>100,521</u>	<u>557,303,058</u>	<u>583,047,279</u>
EXPENDITURES					
Personal Services	123,069,722	138,473		123,208,195	118,120,909
Contracted Personal Services	37,086,948	788		37,087,736	35,727,401
Supplies and Materials	4,960,760	6,584		4,967,344	7,804,582
Travel	2,110,755	10,344		2,121,099	1,980,703
Communication	2,098,865	1,334		2,100,199	2,213,957
Utilities	181,230			181,230	189,946
Data Processing Services	218,859			218,859	153,271
Other Services	3,990,405	12,006		4,002,411	3,552,702
Other Fixed Charges	2,042,384	763		2,043,147	2,060,386
Capital Outlay	6,205,466	12,389	103,676	6,321,531	6,150,502
Grants, State Aid, and Subsidies (Exhibit I-4)	529,788,436	342,353		530,130,789	528,362,867
Other Expenditures	8,337,724	647		8,338,371	8,122,448
Total Expenditures	<u>720,091,554</u>	<u>525,681</u>	<u>103,676</u>	<u>720,720,911</u>	<u>714,439,674</u>
Excess of Revenues Over (Under) Expenditures	<u>(163,476,892)</u>	<u>62,194</u>	<u>(3,155)</u>	<u>(163,417,853)</u>	<u>(131,392,395)</u>
OTHER FINANCING SOURCES (USES)					
State Appropriations	165,280,261			165,280,261	135,806,584
Transfers In	12,778,577			12,778,577	13,243,471
Transfers Out	(16,071,723)			(16,071,723)	(10,776,242)
Transfers from State Reserve Fund	2,126,659			2,126,659	
Transfers to State Reserve Fund	(724,428)			(724,428)	(2,126,659)
Other	14,936			14,936	40,254
Total Other Financing Sources	<u>163,404,282</u>	<u>0</u>	<u>0</u>	<u>163,404,282</u>	<u>136,187,408</u>
Net Change in Fund Balances	<u>(72,610)</u>	<u>62,194</u>	<u>(3,155)</u>	<u>(13,571)</u>	<u>4,795,013</u>
Fund Balances - Beginning of Year	<u>6,059,603</u>	<u>2,056,644</u>	<u>0</u>	<u>8,116,247</u>	<u>3,321,234</u>
Fund Balances - End of Year	<u>\$ 5,986,993</u>	<u>\$ 2,118,838</u>	<u>\$ (3,155)</u>	<u>\$ 8,102,676</u>	<u>\$ 8,116,247</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 Public Health
For the Fiscal Year Ended June 30, 2017

Exhibit I-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child/Adult Day Care	\$ 99,094,565	\$ 127,156,876	\$ 103,308,745	\$ (23,848,131)
HIV Care Grant	52,306,893	62,547,496	42,325,374	(20,222,122)
WIC	239,090,773	243,704,117	179,703,677	(64,000,440)
Medicaid	48,612,180	50,819,419	37,204,929	(13,614,490)
Other Federal Grants	128,446,021	146,629,323	108,742,502	(37,886,821)
Local Grants	26,339,807	30,477,301	27,584,070	(2,893,231)
Sales, Services, and Rentals	2,383,887	2,383,887	1,331,489	(1,052,398)
Fees, Licenses, and Fines	15,867,491	15,060,594	14,871,709	(188,885)
Miscellaneous Revenues	78,242,931	84,676,461	79,277,164	(5,399,297)
Total Revenues	690,384,548	763,455,474	594,349,659	(169,105,815)
EXPENDITURES				
Personal Services	143,992,467	141,633,481	123,003,719	18,629,762
Purchased Services	67,102,218	88,263,982	53,970,139	34,293,843
Supplies	16,548,894	15,215,743	8,208,379	7,007,364
Property, Plant, and Equipment	2,710,091	10,782,398	5,476,642	5,305,756
Other Expenditures and Adjustments	3,113,533	9,868,175	9,386,294	481,881
Aid and Public Assistance	614,453,685	653,703,415	549,225,900	104,477,515
Reserves	5,113,365	4,602,059		4,602,059
Total Expenditures	853,034,253	924,069,253	749,271,073	174,798,180
Excess of Revenues Over (Under) Expenditures	(162,649,705)	(160,613,779)	(154,921,414)	5,692,365
OTHER FINANCING SOURCES (USES)				
State Appropriations	168,811,204	168,655,488	165,280,261	(3,375,227)
Transfers from Other Departments or Funds	5,334,424	9,607,610	7,073,790	(2,533,820)
Transfers to Other Departments or Funds	(11,495,923)	(17,649,319)	(17,432,637)	216,682
Total Other Financing Sources	162,649,705	160,613,779	154,921,414	(5,692,365)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	30,490,261
Payables	(27,351,812)
Deferred Inflows	(898,682)
Total Basis Differences	2,239,767
Other Adjustments:	
Cash	349,864
Inventories	3,397,362
Fund Balance (GAAP Basis) June 30, 2017	\$ 5,986,993

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, 2017
(With Comparative Amounts for June 30, 2016)

Exhibit I-4

GRANTS, STATE AID, AND SUBSIDIES	2017	2016
Social Service Programs:		
Food and Nutrition:		
Women, Infants, and Children (WIC) Program	\$ 241,942,712	\$ 254,248,318
Other Nutrition	100,830,641	98,753,123
Total Food and Nutrition	342,773,353	353,001,441
Child and Family:		
Maternal and Infant Health	19,171,450	18,378,897
Children Health Services	17,452,239	16,417,079
Child and Adult Prevention	15,101,125	15,756,522
Early Intervention	24,007,247	23,010,435
Total Child and Family	75,732,061	73,562,933
Total Social Service Programs	418,505,414	426,564,374
Public Health Programs:		
Communicable Diseases	82,332,221	74,862,359
General Public Health	19,604,102	19,241,971
Chronic Diseases	4,292,285	4,331,411
Other Public Health Programs	5,396,767	3,362,752
Total Public Health Programs	111,625,375	101,798,493
Total Grants, State Aid, and Subsidies Expenditures	\$ 530,130,789	\$ 528,362,867

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Aging and Adult Services
June 30, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit J-1

	General Fund	
	2017	2016
ASSETS		
Receivables:		
Accounts Receivable, Net	\$ 0	\$ 201
Intergovernmental Receivables	4,465,541	4,050,901
Inventories	1,948	
Total Assets	4,467,489	4,051,102
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	\$ 4,467,489	\$ 4,051,102
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 215,895	\$ 207,795
Intergovernmental Payables	6,718,124	6,882,769
Due to Other State Agencies and Funds	13,464	18,918
Due to State of North Carolina Component Units		11,666
Total Liabilities	6,947,483	7,121,148
DEFERRED INFLOWS OF RESOURCES	0	0
FUND BALANCE		
Nonspendable	1,948	
Unassigned	(2,481,942)	(3,070,046)
Total Fund Balance	(2,479,994)	(3,070,046)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 4,467,489	\$ 4,051,102

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, 2017 (With Comparative Amounts for June 30, 2016) Exhibit J-2

	General Fund	
	2017	2016
REVENUES		
Federal Funds	\$ 52,393,561	\$ 50,905,708
Local Funds	9,685,241	9,803,983
Fees, Licenses, and Fines	24,273	35,022
Miscellaneous Revenues	149,047	120,425
Total Revenues	62,252,122	60,865,138
EXPENDITURES		
Personal Services	5,307,845	5,244,460
Contracted Personal Services	1,581,332	1,787,629
Supplies and Materials	30,223	21,082
Travel	143,974	157,391
Communication	40,557	31,142
Other Services	25,229	25,244
Other Fixed Charges	18,578	24,243
Capital Outlay	37,561	31,240
Grants, State Aid, and Subsidies	98,379,870	97,337,348
Expenditures to Other State Agencies	294,138	169,710
Other Expenditures	136,864	121,670
Total Expenditures	105,996,171	104,951,159
Excess of Revenues Over (Under) Expenditures	(43,744,049)	(44,086,021)
OTHER FINANCING SOURCES (USES)		
State Appropriations	43,901,250	43,107,882
Transfers In	330,934	255,934
Transfers Out	(812)	(136,092)
Transfers from State Reserve Fund	144,138	
Transfers to State Reserve Fund	(41,409)	(144,138)
Total Other Financing Sources	44,334,101	43,083,586
Net Change in Fund Balance	590,052	(1,002,435)
Fund Balance - Beginning of Year	(3,070,046)	(2,067,611)
Fund Balance - End of Year	\$ (2,479,994)	\$ (3,070,046)

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, 2017

Exhibit J-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Title III Grants	\$ 28,319,651	\$ 29,858,079	\$ 29,235,602	\$ (622,477)
Nutrition Services Incentive Program	3,310,009	3,661,320	3,339,908	(321,412)
Family Caregiver Support	4,906,157	4,559,388	4,544,169	(15,219)
Other Federal Grants	14,926,493	15,687,780	14,548,057	(1,139,723)
Local Match and Program Income	10,021,614	10,097,077	9,875,639	(221,438)
Sales, Services, and Rentals	100	100		(100)
Fees, Licenses, and Fines	45,000	45,000	24,273	(20,727)
Contributions and Donations	132,400	90,000	86,100	(3,900)
Miscellaneous Revenues	78,306	44,929	74,085	29,156
Total Revenues	61,739,730	64,043,673	61,727,833	(2,315,840)
EXPENDITURES				
Personal Services	6,242,068	6,021,045	5,307,794	713,251
Purchased Services	2,040,872	2,533,629	2,076,630	456,999
Supplies	26,600	39,982	32,655	7,327
Property, Plant, and Equipment	41,434	53,828	39,295	14,533
Other Expenditures and Adjustments	170,100	92,290	87,597	4,693
Aid and Public Assistance	97,957,174	100,238,395	98,223,825	2,014,570
Reserves	38,435	83,364		83,364
Total Expenditures	106,516,683	109,062,533	105,767,796	3,294,737
Excess of Revenues Over (Under) Expenditures	(44,776,953)	(45,018,860)	(44,039,963)	978,897
OTHER FINANCING SOURCES (USES)				
State Appropriations	44,969,128	44,880,101	43,901,250	(978,851)
Transfers from Other Departments or Funds	144,184	475,118	475,072	(46)
Transfers to Other Departments or Funds	(336,359)	(336,359)	(336,359)	
Total Other Financing Sources	44,776,953	45,018,860	44,039,963	(978,897)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	4,465,541
Payables	(6,947,483)
Total Basis Differences	(2,481,942)
Other Adjustments:	
Inventories	1,948
Fund Balance (GAAP Basis) June 30, 2017	\$ (2,479,994)

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit K-1

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2017	Total Blind/Deaf Services 2016
ASSETS					
Cash and Cash Equivalents	\$ 4,924	\$ 571,244	\$ 15,830,612	\$ 16,406,780	\$ 16,173,727
Receivables:					
Accounts Receivable, Net	52,396	92,288	266,553	411,237	442,795
Intergovernmental Receivables	620,244			620,244	446,876
Inventories	33,198			33,198	
Total Assets	<u>710,762</u>	<u>663,532</u>	<u>16,097,165</u>	<u>17,471,459</u>	<u>17,063,398</u>
DEFERRED OUTFLOWS OF RESOURCES					
Total Assets and Deferred Outflows	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 710,762</u>	<u>\$ 663,532</u>	<u>\$ 16,097,165</u>	<u>\$ 17,471,459</u>	<u>\$ 17,063,398</u>
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 673,647	\$ 154,104	\$ 0	\$ 827,751	\$ 612,832
Intergovernmental Payables	219,237			219,237	5,595
Medical Claims Payable	143,382			143,382	336,278
Due to Other State Agencies and Funds	42,233	279		42,512	77,531
Due to Component Units	11,550			11,550	
Total Liabilities	<u>1,090,049</u>	<u>154,383</u>	<u>0</u>	<u>1,244,432</u>	<u>1,032,236</u>
DEFERRED INFLOWS OF RESOURCES					
Total Liabilities and Deferred Inflows	<u>3</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>0</u>
FUND BALANCES					
Nonspendable	33,198			33,198	
Restricted for Health and Human Services	4,924	19,445		24,369	23,961
Committed to Health and Human Services		481,000	16,097,165	16,578,165	16,159,578
Assigned to Health and Human Services		8,704		8,704	8,704
Unassigned	<u>(417,412)</u>	<u></u>	<u></u>	<u>(417,412)</u>	<u>(161,081)</u>
Total Fund Balances	<u>(379,290)</u>	<u>509,149</u>	<u>16,097,165</u>	<u>16,227,024</u>	<u>16,031,162</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 710,762</u>	<u>\$ 663,532</u>	<u>\$ 16,097,165</u>	<u>\$ 17,471,459</u>	<u>\$ 17,063,398</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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit K-2

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2017	Total Blind/Deaf Services 2016
REVENUES					
Federal Funds	\$ 14,410,593	\$ 772,887	\$ 0	\$ 15,183,480	\$ 16,565,276
Local Funds	602,205			602,205	476,006
Sales and Services, Net		1,061,070		1,061,070	864,734
Fees, Licenses, and Fines			3,145,289	3,145,289	4,003,490
Revenues from Other State Agencies			9,934,272	9,934,272	10,590,588
Miscellaneous Revenues	4,294	691	331,243	336,228	270,570
Total Revenues	15,017,092	1,834,648	13,410,804	30,262,544	32,770,664
EXPENDITURES					
Personal Services	18,672,936			18,672,936	18,476,536
Contracted Personal Services	3,464,789	97,582		3,562,371	3,529,186
Supplies and Materials	279,557	28,498		308,055	210,164
Travel	604,976	32,719		637,695	651,834
Communication	361,475			361,475	257,937
Utilities	15,357			15,357	19,655
Data Processing Services	316			316	20,121
Other Services	150,587	406,410		556,997	634,000
Other Fixed Charges	73,221			73,221	67,313
Capital Outlay	231,484	301,949		533,433	769,012
Grants, State Aid, and Subsidies	10,083,274	245,392		10,328,666	10,620,126
Other Expenditures	1,247,801	2,889		1,250,690	1,320,295
Total Expenditures	35,185,773	1,115,439	0	36,301,212	36,576,179
Excess of Revenues Over (Under) Expenditures	(20,168,681)	719,209	13,410,804	(6,038,668)	(3,805,515)
OTHER FINANCING SOURCES (USES)					
State Appropriations	7,702,995			7,702,995	7,134,742
Transfers In	12,549,352	185,858		12,735,210	4,858,035
Transfers Out	(306,715)	(735,738)	(13,198,296)	(14,240,749)	(5,564,931)
Other		37,074		37,074	
Total Other Financing Sources (Uses)	19,945,632	(512,806)	(13,198,296)	6,234,530	6,427,846
Net Change in Fund Balances	(223,049)	206,403	212,508	195,862	2,622,331
Fund Balances - Beginning of Year	(156,241)	302,746	15,884,657	16,031,162	13,408,831
Fund Balances - End of Year	\$ (379,290)	\$ 509,149	\$ 16,097,165	\$ 16,227,024	\$ 16,031,162

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, 2017

Exhibit K-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehab Services	\$ 14,379,377	\$ 14,370,249	\$ 10,138,252	\$ (4,231,997)
Other Federal Grants	4,590,383	4,478,483	4,162,620	(315,863)
Local Grants	626,981	1,094,898	756,148	(338,750)
Fees, Licenses, and Fines	77,097	77,097		(77,097)
Miscellaneous Revenues	889,406	386,952	241,415	(145,537)
Total Revenues	20,563,244	20,407,679	15,298,435	(5,109,244)
EXPENDITURES				
Personal Services	20,429,686	22,094,424	18,680,275	3,414,149
Purchased Services	3,065,150	8,443,732	5,734,819	2,708,913
Supplies	253,491	431,829	296,163	135,666
Property, Plant, and Equipment	276,991	288,187	161,833	126,354
Other Expenditures and Adjustments	655,548	404,151	267,332	136,819
Aid and Public Assistance	8,870,221	12,789,502	10,103,645	2,685,857
Reserves		274,961		274,961
Total Expenditures	33,551,087	44,726,786	35,244,067	9,482,719
Excess of Revenues Over (Under) Expenditures	(12,987,843)	(24,319,107)	(19,945,632)	4,373,475
OTHER FINANCING SOURCES (USES)				
State Appropriations	8,335,267	8,329,819	7,702,995	(626,824)
Transfers from Other Departments or Funds	4,959,291	16,296,003	12,549,352	(3,746,651)
Transfers to Other Departments or Funds	(306,715)	(306,715)	(306,715)	
Total Other Financing Sources	12,987,843	24,319,107	19,945,632	(4,373,475)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	672,640
Payables	(1,090,049)
Deferred Inflows	(3)
Total Basis Differences	(417,412)
Other Adjustments:	
Cash	4,924
Inventories	33,198
Fund Balance (GAAP Basis) June 30, 2017	\$ (379,290)

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Vocational Rehabilitation
June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit L-1

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation 2017	Total Vocational Rehabilitation 2016 (Restated)
ASSETS					
Cash and Cash Equivalents	\$ 0	\$ 6,152	\$ 2,643,375	\$ 2,649,527	\$ 2,918,393
Receivables:					
Accounts Receivable, Net	38,435			38,435	269,994
Intergovernmental Receivables	3,294,629	1,717,117		5,011,746	3,876,896
Due from Other Funds					238,789
Inventories	80,164	176,355		256,519	
Total Assets	3,413,228	1,899,624	2,643,375	7,956,227	7,304,072
DEFERRED OUTFLOWS OF RESOURCES					
Total Assets and Deferred Outflows	0	0	0	0	0
	\$ 3,413,228	\$ 1,899,624	\$ 2,643,375	\$ 7,956,227	\$ 7,304,072
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 4,676,061	\$ 1,953,617	\$ 0	\$ 6,629,678	\$ 4,366,628
Intergovernmental Payables	853,957	22,872		876,829	405,623
Medical Claims Payable	486,996			486,996	374,273
Due to Other State Agencies and Funds	307,780	28,042		335,822	300,231
Due to Component Units	21,542	335		21,877	395
Other Liabilities	312			312	
Total Liabilities	6,346,648	2,004,866	0	8,351,514	5,447,150
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	0	0	0	0	809
FUND BALANCES					
Nonspendable	80,164	176,355		256,519	
Restricted for Health and Human Services					175,714
Committed to Health and Human Services			2,643,375	2,643,375	2,779,000
Unassigned	(3,013,584)	(281,597)		(3,295,181)	(1,098,601)
Total Fund Balances	(2,933,420)	(105,242)	2,643,375	(395,287)	1,856,113
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 3,413,228	\$ 1,899,624	\$ 2,643,375	\$ 7,956,227	\$ 7,304,072

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit L-2

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation 2017	Total Vocational Rehabilitation 2016 (Restated)
REVENUES					
Federal Funds	\$ 82,509,538	\$ 64,030,552	\$ 0	\$ 146,540,090	\$ 149,516,686
Local Funds	2,653,847			2,653,847	2,777,846
Sales and Services, Net	635,712			635,712	436,754
Revenues from Other State Agencies					3,032,681
Miscellaneous Revenues	3,378,929	1,885		3,380,814	3,394,702
Total Revenues	89,178,026	64,032,437	0	153,210,463	159,158,669
EXPENDITURES					
Personal Services	54,355,463	40,434,912		94,790,375	92,913,915
Contracted Personal Services	1,948,718	22,365,554		24,314,272	24,840,343
Supplies and Materials	726,259	48,202		774,461	946,048
Travel	973,729	33,991		1,007,720	1,043,979
Communication	1,185,748	333,232		1,518,980	1,623,374
Utilities	393,251			393,251	370,723
Other Services	310,350	343,115		653,465	644,695
Other Fixed Charges	161,706	120,189		281,895	926,291
Capital Outlay	583,609	367,196	135,625	1,086,430	935,649
Grants, State Aid, and Subsidies	60,818,782	248,497		61,067,279	60,868,498
Expenditures to Other State Agencies	213			213	702,490
Other Expenditures	4,776,050	2,322,457		7,098,507	7,146,200
Total Expenditures	126,233,878	66,617,345	135,625	192,986,848	192,962,205
Excess of Revenues Over (Under) Expenditures	(37,055,852)	(2,584,908)	(135,625)	(39,776,385)	(33,803,536)
OTHER FINANCING SOURCES (USES)					
State Appropriations	36,232,523			36,232,523	35,394,741
Transfers In	12,835	2,303,952		2,316,787	2,962,483
Transfers Out	(1,037,019)			(1,037,019)	(2,522,145)
Other	12,694			12,694	3,876
Total Other Financing Sources	35,221,033	2,303,952	0	37,524,985	35,838,955
Net Change in Fund Balances	(1,834,819)	(280,956)	(135,625)	(2,251,400)	2,035,419
Fund Balances - Beginning of Year	(1,098,601)	175,714	2,779,000	1,856,113	(179,306)
Fund Balances - End of Year	\$ (2,933,420)	\$ (105,242)	\$ 2,643,375	\$ (395,287)	\$ 1,856,113

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, 2017

Exhibit L-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehabilitation Services	\$ 96,228,445	\$ 95,861,761	\$ 78,833,752	\$ (17,028,009)
Other Federal Grants	4,960,532	4,191,295	3,494,174	(697,121)
Local Grants	2,826,654	2,780,820	2,653,847	(126,973)
Sales, Services, and Rentals	17,838	435,678	643,955	208,277
Miscellaneous Revenues	5,060,863	4,650,996	5,226,658	575,662
Total Revenues	109,094,332	107,920,550	90,852,386	(17,068,164)
EXPENDITURES				
Personal Services	60,926,156	59,984,951	54,054,829	5,930,122
Purchased Services	9,915,932	10,387,928	9,736,294	651,634
Supplies	585,113	748,267	707,482	40,785
Property, Plant, and Equipment	421,217	592,025	540,481	51,544
Other Expenditures and Adjustments	3,859,213	1,671,262	1,664,980	6,282
Aid and Public Assistance	71,517,474	71,745,418	59,355,271	12,390,147
Reserves	501	23,672		23,672
Total Expenditures	147,225,606	145,153,523	126,059,337	19,094,186
Excess of Revenues Over (Under) Expenditures	(38,131,274)	(37,232,973)	(35,206,951)	2,026,022
OTHER FINANCING SOURCES (USES)				
State Appropriations	38,227,543	38,199,785	36,232,523	(1,967,262)
Transfers from Other Departments or Funds		70,420	11,660	(58,760)
Transfers to Other Departments or Funds	(96,269)	(1,037,232)	(1,037,232)	
Total Other Financing Sources	38,131,274	37,232,973	35,206,951	(2,026,022)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	3,333,064
Payables	(6,346,648)
Total Basis Differences	(3,013,584)
Other Adjustments:	
Inventories	80,164
Fund Balance (GAAP Basis) June 30, 2017	\$ (2,933,420)

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Social Services
June 30, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit M-1

	General Fund	
	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 3,637,557	\$ 3,692,341
Receivables:		
Accounts Receivable, Net	5,618,395	5,109,972
Intergovernmental Receivables	82,370,580	72,897,398
Due from Other Funds	159,768	201,974
Inventories	12,369	
Total Assets	91,798,669	81,901,685
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	\$ 91,798,669	\$ 81,901,685
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 6,375,463	\$ 2,069,385
Intergovernmental Payables	85,327,139	73,126,937
Medical Claims Payable		1,052,127
Due to Other State Agencies and Funds	168,733	1,808,688
Due to State of North Carolina Component Units	1,659,249	150
Total Liabilities	93,530,584	78,057,287
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	260,790	91,423
FUND BALANCE		
Nonspendable	12,369	
Restricted for Health and Human Services	1,356,102	1,266,426
Committed to Health and Human Services	1,705,365	1,985,084
Unassigned	(5,066,541)	501,465
Total Fund Balance	(1,992,705)	3,752,975
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 91,798,669	\$ 81,901,685

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 Social Services

For the Fiscal Year Ended June 30, 2017 (With Comparative Amounts for June 30, 2016) Exhibit M-2

	General Fund	
	2017	2016
REVENUES		
Federal Funds ¹	\$ 3,079,283,879	\$ 3,208,599,697
Local Funds	113,449,740	110,869,674
Fees, Licenses, and Fines	361,074	357,408
Revenues from Other State Agencies	20,565	20,955
Miscellaneous Revenues	10,392,792	15,846,227
Total Revenues	3,203,508,050	3,335,693,961
EXPENDITURES		
Personal Services	24,370,149	22,576,346
Contracted Personal Services	13,469,764	13,474,113
Supplies and Materials	104,877	117,918
Travel	865,252	802,795
Communication	642,327	1,015,694
Utilities	312	
Data Processing Services	127,933	143,022
Other Services	5,498,567	5,437,277
Other Fixed Charges	156,159	302,750
Capital Outlay	287,994	148,011
Grants, State Aid, and Subsidies (Exhibit M-4) ¹	3,355,689,515	3,470,916,654
Expenditures to Other State Agencies	262,410	828,598
Other Expenditures	561,285	647,495
Total Expenditures	3,402,036,544	3,516,410,673
Excess of Revenues Over (Under) Expenditures	(198,528,494)	(180,716,712)
OTHER FINANCING SOURCES (USES)		
State Appropriations	193,711,998	178,733,748
Transfers In	9,409,165	9,109,233
Transfers Out	(8,918,743)	(3,879,167)
Transfers from State Reserve Fund	125,933	
Transfers to State Reserve Fund	(1,545,539)	(215,336)
Total Other Financing Sources	192,782,814	183,748,478
Net Change in Fund Balance	(5,745,680)	3,031,766
Fund Balance - Beginning of Year	3,752,975	721,209
Fund Balance - End of Year	\$ (1,992,705)	\$ 3,752,975

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

¹ Food stamp benefits are recognized as revenues and expenditures when recipients use the benefits. Food stamps used during the year of \$2,156,796,957 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, 2017

Exhibit M-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 169,819,298	\$ 233,051,987	\$ 232,679,568	\$ (372,419)
Title IV-D / Child Support	104,596,072	104,444,424	99,493,124	(4,951,300)
Title IV-E / Foster Care	142,577,147	130,578,932	128,559,408	(2,019,524)
Low Income Energy Program	98,636,938	98,636,938	86,595,758	(12,041,180)
Food Stamps	83,950,027	113,556,753	109,919,017	(3,637,736)
TANF	166,468,896	166,468,896	153,597,079	(12,871,817)
Other Federal Grants	114,609,712	113,188,647	104,609,134	(8,579,513)
Local Grants	647,544,311	732,907,679	726,913,265	(5,994,414)
Fees, Licenses, and Fines	6,968			
Miscellaneous Revenues	7,836,136	8,302,012	7,661,016	(640,996)
Total Revenues	1,536,045,505	1,701,136,268	1,650,027,369	(51,108,899)
EXPENDITURES				
Personal Services	28,557,138	28,870,972	24,361,867	4,509,105
Purchased Services	28,858,954	25,811,024	19,761,173	6,049,851
Supplies	370,271	248,058	115,875	132,183
Property, Plant, and Equipment	377,036	402,866	240,493	162,373
Other Expenditures and Adjustments	1,911,095	2,993,614	2,447,575	546,039
Aid and Public Assistance	1,676,008,748	1,844,494,560	1,801,261,281	43,233,279
Reserves	3,729,790	2,792,752		2,792,752
Total Expenditures	1,739,813,032	1,905,613,846	1,848,188,264	57,425,582
Excess of Revenues Over (Under) Expenditures	(203,767,527)	(204,477,578)	(198,160,895)	6,316,683
OTHER FINANCING SOURCES (USES)				
State Appropriations	200,111,082	200,182,312	193,711,998	(6,470,314)
Transfers from Other Departments or Funds	9,184,434	15,719,563	14,663,443	(1,056,120)
Transfers to Other Departments or Funds	(5,527,989)	(11,424,297)	(10,214,546)	1,209,751
Total Other Financing Sources	203,767,527	204,477,578	198,160,895	(6,316,683)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	88,148,743
Payables	(93,530,584)
Deferred Inflows	(260,790)
Total Basis Differences	(5,642,631)
Other Adjustments:	
Cash	3,637,557
Inventories	12,369
Fund Balances (GAAP Basis) June 30, 2017	\$ (1,992,705)

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, 2017
(With Comparative Amounts for June 30, 2016)

Exhibit M-4

GRANTS, STATE AID, AND SUBSIDIES	2017	2016
Food and Nutrition:		
Food Stamp Program	\$ 2,156,796,957	\$ 2,303,514,516
Nutrition and Food Education Programs	102,729,531	94,164,285
Total Food and Nutrition	2,259,526,488	2,397,678,801
Child and Family:		
Child Services	385,329,214	361,441,470
Foster Care	76,853,330	76,053,815
Adoption	114,887,352	112,201,865
Total Child and Family	577,069,896	549,697,150
Support of Aging and Adult Programs	140,297,610	148,962,326
Support of Medicaid Programs	231,935,233	228,464,902
Other Social Service Programs:		
Low-Income Energy Assistance Program	86,940,496	96,839,119
Miscellaneous	59,919,792	49,274,356
Total Other Social Service Programs	146,860,288	146,113,475
Total Grants, State Aid, and Subsidies Expenditures	\$ 3,355,689,515	\$ 3,470,916,654

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Mental Health/Developmental Disabilities and Substance Abuse Services
June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit N-1

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2017	Total Mental Health 2016 (Restated)
ASSETS					
Cash and Cash Equivalents	\$ 0	\$ 23,562,259	\$ 32,294,911	\$ 55,857,170	\$ 34,881,184
Receivables:					
Accounts Receivable, Net	28,866,596	369,499		29,236,095	22,456,589
Intergovernmental Receivables	7,638,108			7,638,108	13,887,971
Due from Other Funds	8,535			8,535	90,387
Inventories	5,596,881	25,281		5,622,162	5,548,946
Total Assets	42,110,120	23,957,039	32,294,911	98,362,070	76,865,077
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 42,110,120	\$ 23,957,039	\$ 32,294,911	\$ 98,362,070	\$ 76,865,077
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 32,869,970	\$ 99,273	\$ 9,363,880	\$ 42,333,123	\$ 35,003,447
Intergovernmental Payables	8,810,623			8,810,623	284,411
Medical Claims Payable	8,445,924			8,445,924	9,219,930
Due to Other State Agencies and Funds	3,437,920	181		3,438,101	2,665,687
Due to State of North Carolina Component Units	1,201,629	12,284		1,213,913	286,262
Other Liabilities		4,197		4,197	4,197
Total Liabilities	54,766,066	115,935	9,363,880	64,245,881	47,463,934
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	8,804,292	0	0	8,804,292	4,121,627
FUND BALANCES					
Nonspendable	5,596,881	25,281		5,622,162	5,548,946
Restricted for Health and Human Services		1,165,510		1,165,510	1,064,002
Committed to Health and Human Services		21,439,638	31,893,958	53,333,596	31,797,575
Assigned to Health and Human Services		1,210,675		1,210,675	1,106,786
Unassigned	(27,057,119)		(8,962,927)	(36,020,046)	(14,237,793)
Total Fund Balances	(21,460,238)	23,841,104	22,931,031	25,311,897	25,279,516
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 42,110,120	\$ 23,957,039	\$ 32,294,911	\$ 98,362,070	\$ 76,865,077

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit N-2

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2017	Total Mental Health 2016 (Restated)
REVENUES					
Federal Funds	\$ 452,060,607	\$ 859,473	\$ 0	\$ 452,920,080	\$ 444,927,260
Local Funds	1,937,354	5,819		1,943,173	1,886,436
Sales and Services, Net (Note 10)	50,704,386	1,467,373		52,171,759	58,168,915
Fees, Licenses, and Fines	659,918	1,825		661,743	568,740
Revenues from Other State Agencies	8,048,136	1,000,000	24,341,366	33,389,502	53,202,078
Miscellaneous Revenues	13,814,652	587,799		14,402,451	6,043,327
Total Revenues	527,225,053	3,922,289	24,341,366	555,488,708	564,796,756
EXPENDITURES					
Personal Services	645,219,141	816,446		646,035,587	623,944,570
Contracted Personal Services	58,317,255	206,063		58,523,318	43,266,517
Supplies and Materials	40,921,648	1,152,437		42,074,085	43,054,840
Travel	497,258	78,309		575,567	559,300
Communication	2,194,427	41,865		2,236,292	2,165,610
Utilities	12,952,622	17,913		12,970,535	12,477,890
Data Processing Services	22			22	139
Other Services	2,637,058	119,080		2,756,138	1,655,554
Other Fixed Charges	4,992,657	26,633		5,019,290	4,931,750
Capital Outlay	7,142,037	123,918	32,002,450	39,268,405	42,006,010
Grants, State Aid, and Subsidies (Exhibit N-4)	386,507,154	793,233		387,300,387	382,635,607
Expenditures to Other State Agencies	7,575,719			7,575,719	3,342,885
Other Expenditures	14,797,232	128,492		14,925,724	19,253,152
Total Expenditures	1,183,754,230	3,504,389	32,002,450	1,219,261,069	1,179,293,824
Excess of Revenues Over (Under) Expenditures	(656,529,177)	417,900	(7,661,084)	(663,772,361)	(614,497,068)
OTHER FINANCING SOURCES (USES)					
State Appropriations	585,510,275		8,406,000	593,916,275	594,775,074
Transfers In	222,284,621	20,107,980	112,060	242,504,661	223,550,187
Transfers Out	(181,123,554)	(215,415)	(112,060)	(181,451,029)	(161,278,017)
Transfers from State Reserve Fund	59,779,636			59,779,636	
Transfers to State Reserve Fund	(51,699,493)			(51,699,493)	(60,552,324)
Other	756,425		(1,733)	754,692	1,925,539
Total Other Financing Sources	635,507,910	19,892,565	8,404,267	663,804,742	598,420,459
Net Change in Fund Balances	(21,021,267)	20,310,465	743,183	32,381	(16,076,609)
Fund Balances - Beginning of Year, as Restated	(438,971)	3,530,639	22,187,848	25,279,516	41,356,125
Fund Balances - End of Year	\$ (21,460,238)	\$ 23,841,104	\$ 22,931,031	\$ 25,311,897	\$ 25,279,516

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, 2017

Exhibit N-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 5,437,801	\$ 5,586,455	\$ 4,759,275	\$ (827,180)
Reimbursements to Facilities	3,330,462	3,968,544	3,198,782	(769,762)
Medicaid	596,227,823	597,771,154	570,744,621	(27,026,533)
SAPT Block Grant	45,077,046	45,077,046	40,722,977	(4,354,069)
Other Federal Grants	24,703,344	42,846,766	35,019,574	(7,827,192)
Local Grants	1,470,525	3,515,299	4,296,348	781,049
Sales, Services, and Rentals	71,242,158	75,380,782	50,961,713	(24,419,069)
Fees, Licenses, and Fines	808,736	933,496	663,943	(269,553)
Contributions and Donations		10,375	37,625	27,250
Miscellaneous	1,544,451	1,900,213	2,083,795	183,582
Total Revenues	749,842,346	776,990,130	712,488,653	(64,501,477)
EXPENDITURES				
Personal Services	696,056,203	674,935,920	644,708,527	30,227,393
Purchased Services	58,696,912	85,431,900	77,772,604	7,659,296
Supplies	48,975,519	47,989,935	40,772,736	7,217,199
Property, Plant, and Equipment	5,028,526	8,296,497	6,534,528	1,761,969
Other Expenditures and Adjustments	7,240,853	13,559,703	16,229,285	(2,669,582)
Aid and Public Assistance	373,592,387	395,557,104	374,122,524	21,434,580
Reserves	152,384	796,555		796,555
Total Expenditures	1,189,742,784	1,226,567,614	1,160,140,204	66,427,410
Excess of Revenues Over (Under) Expenditures	(439,900,438)	(449,577,484)	(447,651,551)	1,925,933
OTHER FINANCING SOURCES (USES)				
State Appropriations	587,541,599	587,301,858	585,510,275	(1,791,583)
Transfers from Other Departments or Funds	71,179,875	107,160,031	106,112,055	(1,047,976)
Transfers to Other Departments or Funds	(218,821,036)	(244,884,405)	(243,970,779)	913,626
Total Other Financing Sources	439,900,438	449,577,484	447,651,551	(1,925,933)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	36,513,239
Payables	(54,766,066)
Deferred Inflows	(8,804,292)
Total Basis Differences	(27,057,119)
Other Adjustments:	
Inventories	5,596,881
Fund Balance (GAAP Basis) June 30, 2017	\$ (21,460,238)

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, 2017
(With Comparative Amounts for June 30, 2016)

Exhibit N-4

GRANTS, STATE AID, AND SUBSIDIES	2017	2016
Mental Health Programs:		
Local Management Entity Expenditures	\$ 364,464,531	\$ 359,905,589
Non-Governmental Expenditures	18,896,225	17,191,553
Governmental Expenditures	3,939,631	5,538,465
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 387,300,387</u>	<u>\$ 382,635,607</u>

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Health Benefits
June 30, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit O-1

	General Fund	
	2017	2016
ASSETS		
Receivables:		
Intergovernmental Receivables	\$ 134,091	\$ 0
Inventories	10,203	
Total Assets	144,294	0
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	<u>\$ 144,294</u>	<u>\$ 0</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 930,409	\$ 704,195
Due to Other State Agencies and Funds	82,850	56,487
Due to State of North Carolina Component Units		30,969
Total Liabilities	1,013,259	791,651
DEFERRED INFLOWS OF RESOURCES	0	0
FUND BALANCE		
Nonspendable	10,203	
Unassigned	(879,168)	(791,651)
Total Fund Balance	(868,965)	(791,651)
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 144,294</u>	<u>\$ 0</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 Balance
Governmental Funds

Division of Health Benefits

For the Fiscal Year Ended June 30, 2017 (With Comparative Amounts for June 30, 2016)

Exhibit O-2

	General Fund	
	2017	2016
REVENUES		
Federal Funds	\$ 134,091	\$ 0
Miscellaneous Revenues	41	
Total Revenues	134,132	0
EXPENDITURES		
Personal Services	1,777,001	493,291
Contracted Personal Services	7,087,917	1,955,621
Supplies and Materials	15,945	11,523
Travel	16,731	5,408
Communication	1,559	
Other Services	64,377	30,258
Other Fixed Charges	5,020	2,460
Capital Outlay	295,820	78,306
Other Expenditures	10,490	2,279
Total Expenditures	9,274,860	2,579,146
Excess of Revenues Over (Under) Expenditures	(9,140,728)	(2,579,146)
OTHER FINANCING SOURCES (USES)		
State Appropriations	9,686,546	2,904,652
Transfers In		4,093,888
Transfers from State Reserve Fund	5,103,901	
Transfers to State Reserve Fund	(5,727,033)	(5,211,045)
Total Other Financing Sources	9,063,414	1,787,495
Net Change in Fund Balance	(77,314)	(791,651)
Fund Balance - Beginning of Year	(791,651)	0
Fund Balance - End of Year	\$ (868,965)	\$ (791,651)

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, 2017

Exhibit O-3

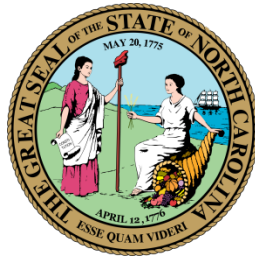
	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES	\$ 0	\$ 0	\$ 0	\$ 0
EXPENDITURES				
Personal Services	4,184,046	1,883,339	1,776,253	107,086
Purchased Services	5,426,501	6,956,203	6,956,191	12
Supplies		32,579	32,578	1
Property, Plant, and Equipment	76,000	295,823	295,820	3
Other Expenditures and Adjustments		2,615	2,572	43
Total Expenditures	9,686,547	9,170,559	9,063,414	107,145
Excess of Revenues Over (Under) Expenditures	(9,686,547)	(9,170,559)	(9,063,414)	107,145
OTHER FINANCING SOURCES (USES)				
State Appropriations	9,686,547	9,686,547	9,686,546	(1)
Transfers from Other Departments or Funds		5,211,045	5,103,901	(107,144)
Transfers to Other Departments or Funds		(5,727,033)	(5,727,033)	
Total Other Financing Sources	9,686,547	9,170,559	9,063,414	(107,145)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund presents comparisons of the legally adopted budget with actual data on a 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 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, 2017 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2017	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	134,091
Payables	(1,013,259)
Total Basis Differences	(879,168)
Other Adjustments:	
Inventories	10,203
Fund Balance (GAAP Basis) June 30, 2017	\$ (868,965)



OTHER SUPPLEMENTARY INFORMATION

North Carolina Department of Health and Human Services
Combining Balance Sheet
Other Governmental Funds
June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit P-1

	Special Revenue Funds	Capital Projects Funds	Total 2017	Total 2016
ASSETS				
Cash and Cash Equivalents	\$ 42,086,317	\$ 36,831,573	\$ 78,917,890	\$ 57,663,690
Receivables:				
Accounts Receivable, Net	733,985		733,985	669,147
Intergovernmental Receivables	1,717,117		1,717,117	1,352,591
Due from Other Funds				238,789
Inventories	201,636		201,636	31,838
Total Assets	44,739,055	36,831,573	81,570,628	59,956,055
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	\$ 44,739,055	\$ 36,831,573	\$ 81,570,628	\$ 59,956,055
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 2,209,711	\$ 9,367,035	\$ 11,576,746	\$ 11,167,991
Intergovernmental Payables	22,872		22,872	163,232
Medical Claims Payable				125,322
Due to Other State Agencies and Funds	28,642		28,642	3,819
Due to State of North Carolina Component Units	12,619		12,619	1,359
Other Liabilities	4,197		4,197	4,197
Total Liabilities	2,278,041	9,367,035	11,645,076	11,465,920
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	0	0	0	556
FUND BALANCES				
Nonspendable	201,636		201,636	31,838
Restricted for Health and Human Services	1,184,955		1,184,955	1,258,837
Committed to Health and Human Services	40,136,641	36,430,620	76,567,261	60,320,743
Assigned to Health and Human Services	1,219,379		1,219,379	1,115,490
Unassigned	(281,597)	(8,966,082)	(9,247,679)	(14,237,329)
Total Fund Balances	42,461,014	27,464,538	69,925,552	48,489,579
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 44,739,055	\$ 36,831,573	\$ 81,570,628	\$ 59,956,055

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

North Carolina Department of Health and Human Services
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Fiscal Year Ended June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit P-2

	Special Revenue Funds	Capital Projects Funds	Total 2017	Total 2016
REVENUES				
Federal Funds	\$ 65,662,912	\$ 0	\$ 65,662,912	\$ 64,058,917
Local Funds	28,280		28,280	23,430
Sales and Services, Net	2,528,443		2,528,443	2,399,708
Fees, Licenses, and Fines	3,712,528		3,712,528	4,585,849
Revenues from Other State Agencies	10,934,272	24,511,489	35,445,761	65,126,881
Miscellaneous Revenues	921,618		921,618	999,386
Total Revenues	83,788,053	24,511,489	108,299,542	137,194,171
EXPENDITURES				
Personal Services	41,389,831		41,389,831	40,592,809
Contracted Personal Services	22,669,987		22,669,987	26,042,331
Supplies and Materials	1,235,721		1,235,721	1,566,976
Travel	155,363		155,363	210,147
Communication	376,431		376,431	394,980
Utilities	17,913		17,913	64,962
Data Processing Services				1,944
Other Services	880,611		880,611	1,041,610
Other Fixed Charges	147,585		147,585	793,253
Capital Outlay	805,452	32,440,397	33,245,849	35,456,291
Grants, State Aid, and Subsidies	1,629,475		1,629,475	4,872,614
Other Expenditures	2,454,485		2,454,485	2,602,091
Total Expenditures	71,762,854	32,440,397	104,203,251	113,640,008
Excess of Revenues Over (Under) Expenditures	12,025,199	(7,928,908)	4,096,291	23,554,163
OTHER FINANCING SOURCES (USES)				
State Appropriations		8,856,000	8,856,000	
Transfers In	22,597,790	112,060	22,709,850	4,309,493
Transfers Out	(14,149,449)	(112,060)	(14,261,509)	(5,510,403)
Other	37,074	(1,733)	35,341	85,000
Total Other Financing Sources	8,485,415	8,854,267	17,339,682	(1,115,910)
Net Change in Fund Balances	20,510,614	925,359	21,435,973	22,438,253
Fund Balances - Beginning of Year	21,950,400	26,539,179	48,489,579	26,051,326
Fund Balances - End of Year	\$ 42,461,014	\$ 27,464,538	\$ 69,925,552	\$ 48,489,579

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit P-3

	Other Special Revenue Fund	Disability Determination Fund	N.C. Dual Party Relay System Fund	Total 2017	Total 2016
ASSETS					
Cash and Cash Equivalents	\$ 26,249,553	\$ 6,152	\$ 15,830,612	\$ 42,086,317	\$ 21,710,871
Receivables:					
Accounts Receivable, Net	467,432		266,553	733,985	669,147
Intergovernmental Receivables		1,717,117		1,717,117	1,352,591
Due from Other Funds					238,789
Inventories	25,281	176,355		201,636	31,838
Total Assets	26,742,266	1,899,624	16,097,165	44,739,055	24,003,236
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 26,742,266	\$ 1,899,624	\$ 16,097,165	\$ 44,739,055	\$ 24,003,236
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 256,094	\$ 1,953,617	\$ 0	\$ 2,209,711	\$ 1,754,373
Intergovernmental Payables		22,872		22,872	163,232
Medical Claims Payable					125,322
Due to Other State Agencies and Funds	600	28,042		28,642	3,797
Due to State of North Carolina Component Units	12,284	335		12,619	1,359
Other Liabilities	4,197			4,197	4,197
Total Liabilities	273,175	2,004,866	0	2,278,041	2,052,280
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	0	0	0	0	556
FUND BALANCES					
Nonspendable	25,281	176,355		201,636	31,838
Restricted for Health and Human Services	1,184,955			1,184,955	1,258,837
Committed to Health and Human Services	24,039,476		16,097,165	40,136,641	19,544,235
Assigned to Health and Human Services	1,219,379			1,219,379	1,115,490
Unassigned		(281,597)		(281,597)	
Total Fund Balances	26,469,091	(105,242)	16,097,165	42,461,014	21,950,400
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 26,742,266	\$ 1,899,624	\$ 16,097,165	\$ 44,739,055	\$ 24,003,236

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

North Carolina Department of Health and Human Services
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
For the Fiscal Year Ended June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit P-4

	Other Special Revenue Fund	Disability Determination Fund	N.C. Dual Party Relay System Fund	Total 2017	Total 2016
REVENUES					
Federal Funds	\$ 1,632,360	\$ 64,030,552	\$ 0	\$ 65,662,912	\$ 64,058,917
Local Funds	28,280			28,280	23,430
Sales and Services, Net	2,528,443			2,528,443	2,399,708
Fees, Licenses, and Fines	567,239		3,145,289	3,712,528	4,585,849
Revenues from Other State Agencies	1,000,000		9,934,272	10,934,272	11,590,588
Miscellaneous Revenues	588,490	1,885	331,243	921,618	999,386
Total Revenues	6,344,812	64,032,437	13,410,804	83,788,053	83,657,878
EXPENDITURES					
Personal Services	954,919	40,434,912		41,389,831	40,592,809
Contracted Personal Services	304,433	22,365,554		22,669,987	26,042,331
Supplies and Materials	1,187,519	48,202		1,235,721	1,566,976
Travel	121,372	33,991		155,363	210,147
Communication	43,199	333,232		376,431	394,980
Utilities	17,913			17,913	64,962
Data Processing Services					1,944
Other Services	537,496	343,115		880,611	1,041,610
Other Fixed Charges	27,396	120,189		147,585	793,253
Capital Outlay	438,256	367,196		805,452	1,161,035
Grants, State Aid, and Subsidies	1,380,978	248,497		1,629,475	4,872,614
Other Expenditures	132,028	2,322,457		2,454,485	2,602,091
Total Expenditures	5,145,509	66,617,345	0	71,762,854	79,344,752
Excess of Revenues Over (Under) Expenditures	1,199,303	(2,584,908)	13,410,804	12,025,199	4,313,126
OTHER FINANCING SOURCES (USES)					
Transfers In	20,293,838	2,303,952		22,597,790	4,054,072
Transfers Out	(951,153)		(13,198,296)	(14,149,449)	(5,254,982)
Other	37,074			37,074	
Total Other Financing Sources (Uses)	19,379,759	2,303,952	(13,198,296)	8,485,415	(1,200,910)
Net Change in Fund Balances	20,579,062	(280,956)	212,508	20,510,614	3,112,216
Fund Balances - Beginning of Year	5,890,029	175,714	15,884,657	21,950,400	18,838,184
Fund Balances - End of Year	\$ 26,469,091	\$ (105,242)	\$ 16,097,165	\$ 42,461,014	\$ 21,950,400

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit P-5

	Debt Supporting Fund	Non-Debt Supporting Fund	Total 2017	Total 2016
ASSETS				
Cash and Cash Equivalents	\$ 0	\$ 36,831,573	\$ 36,831,573	\$ 35,952,819
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	<u>\$ 0</u>	<u>\$ 36,831,573</u>	<u>\$ 36,831,573</u>	<u>\$ 35,952,819</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 8,928,734	\$ 438,301	\$ 9,367,035	\$ 9,413,618
Due to Other State Agencies and Funds				22
Total Liabilities	<u>8,928,734</u>	<u>438,301</u>	<u>9,367,035</u>	<u>9,413,640</u>
DEFERRED INFLOWS OF RESOURCES	0	0	0	0
FUND BALANCES				
Committed to Health and Human Services		36,430,620	36,430,620	40,776,508
Unassigned	(8,928,734)	(37,348)	(8,966,082)	(14,237,329)
Total Fund Balances	<u>(8,928,734)</u>	<u>36,393,272</u>	<u>27,464,538</u>	<u>26,539,179</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 0</u>	<u>\$ 36,831,573</u>	<u>\$ 36,831,573</u>	<u>\$ 35,952,819</u>

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

North Carolina Department of Health and Human Services
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Capital Projects Funds
For the Fiscal Year Ended June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit P-6

	Debt Supporting Fund	Non-Debt Supporting Fund	Total 2017	Total 2016
REVENUES				
Revenues from Other State Agencies	\$ 24,511,489	\$ 0	\$ 24,511,489	\$ 53,536,293
EXPENDITURES				
Capital Outlay	24,823,545	7,616,852	32,440,397	34,295,256
Excess of Revenues Over (Under) Expenditures	(312,056)	(7,616,852)	(7,928,908)	19,241,037
OTHER FINANCING SOURCES (USES)				
State Appropriations		8,856,000	8,856,000	
Transfers In		112,060	112,060	255,421
Transfers Out		(112,060)	(112,060)	(255,421)
Other		(1,733)	(1,733)	85,000
Total Other Financing Sources	0	8,854,267	8,854,267	85,000
Net Change in Fund Balances	(312,056)	1,237,415	925,359	19,326,037
Fund Balances - Beginning of Year	(8,616,678)	35,155,857	26,539,179	7,213,142
Fund Balances - End of Year	\$ (8,928,734)	\$ 36,393,272	\$ 27,464,538	\$ 26,539,179

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, 2017

	Transfers In - By Division			
	Central Administration	Medical Assistance	Health Service Regulation	Public Health
<u>Transfers Out - By Division</u>				
Central Administration	\$ 3,298,753	\$ 296	\$ 0	\$ 452,160
Medical Assistance	7,936			10,917,130
Child Development	1,372,339			
Health Service Regulation	500,001		701,467	
Public Health	15,911,138			
Aging	812			
Blind/Deaf Services	1,505,539			
Vocational Rehabilitation	1,037,019			
Social Services	7,509,456			1,409,287
Mental Health	1,529,000	159,594,553		
Total Transfers	<u>\$ 32,671,993</u>	<u>\$ 159,594,849</u>	<u>\$ 701,467</u>	<u>\$ 12,778,577</u>

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

Exhibit Q-1

Transfers In - By Division					
Aging	Blind/Deaf Services	Vocational Rehabilitation	Social Services	Mental Health	Total
\$ 330,934	\$ 0	\$ 0	\$ 5,425,105	\$ 4,460,207	\$ 13,967,455
		2,316,787	1,722,437	217,556,393	232,520,683
			2,261,623		3,633,962
					1,201,468
				160,585	16,071,723
					812
	12,735,210				14,240,749
					1,037,019
					8,918,743
				20,327,476	181,451,029
<u>\$ 330,934</u>	<u>\$ 12,735,210</u>	<u>\$ 2,316,787</u>	<u>\$ 9,409,165</u>	<u>\$ 242,504,661</u>	<u>\$ 473,043,643</u>



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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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**

Dr. Mandy K. Cohen, 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 governmental funds, 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, 2017, 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 19, 2018.

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, 2017, 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 19, 2018

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For additional information contact:
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This audit required 3,664 hours at an approximate cost of \$402,392.