

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, 2018

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



NCOSA
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, 2018, 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 Financial Statements” 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, 2018 (with comparative totals for June 30, 2017) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2018 (with comparative totals for fiscal year ended June 30, 2017) for the **Department as a whole**.

“**B**” **Exhibits** present the Balance Sheet as of June 30, 2018 (with comparative totals for June 30, 2017) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2018 (with comparative totals for fiscal year ended June 30, 2017) for the **Department by division**.

“**C**” **through “M” Exhibits** present the Balance Sheet as of June 30, 2018 (with comparative totals for June 30, 2017) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2018 (with comparative totals for fiscal year ended June 30, 2017) individually for **each division**.

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

“**N**” **Exhibits** present a budget and actual comparison for the General Fund (for the fiscal year ended June 30, 2018) of the **Department and each division**.

Supplementary Information:

“O” Exhibits present details of one expenditure line item on the financial statements classified “Grants, State Aid, and Subsidies” for all divisions with further breakdown for selected divisions.

“P” Exhibits present the 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, 2018 with comparative totals for fiscal year ended June 30, 2017).

“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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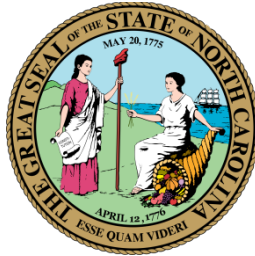
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INDEPENDENT AUDITOR'S REPORT

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, 2018, 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, 2018, 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, 2018, 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.

As discussed in Note 18 to the financial statements, during the year ended June 30, 2018, the Department adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. 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, 2017 and the respective changes in financial position for the year then ended and we expressed unmodified audit opinions on those audited financial statements in our report dated March 19, 2018. 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 statements 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

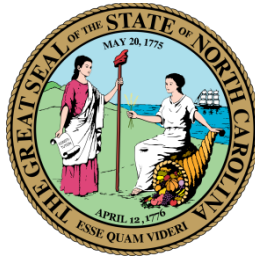
In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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

April 12, 2019



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, 2018 and 2017. 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 Department's 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 support 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 statements 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, 2018 and 2017.

Condensed Balance Sheets Governmental Funds		
	2018	2017 (Restated)
Assets	\$ 1,313,340,911	\$ 1,138,959,619
Deferred Outflows of Resources	3,960,972	0
Total Assets and Deferred Outflows	\$ 1,317,301,883	\$ 1,138,959,619
Liabilities	\$ 1,423,563,351	\$ 1,384,026,125
Deferred Inflows of Resources	14,042,174	10,508,751
Fund Balances		
Nonspendable	9,355,937	9,593,140
Restricted	73,427,862	59,683,455
Committed	107,214,186	100,222,464
Assigned	4,172,858	5,401,184
Unassigned	(314,474,485)	(430,475,500)
Total Fund Balances	(120,303,642)	(255,575,257)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 1,317,301,883	\$ 1,138,959,619

Total assets increased \$174.4 million, or 15.3%, compared to fiscal year 2017. This increase is primarily due to cash on hand of \$104.0 million for drug rebates received at the end of the fiscal year, which in previous years had been treated as a cash carry forward, and \$20.7 million for undispositioned refunds received at the end of the fiscal year. The Department refunds the federal share of drug rebate collections to the federal government. Receivables also increased by \$43.0 million related to receivables from the federal government and general accounts receivable. Accounts receivable increased by \$24.3 million, primarily related to an increase in

drug rebate receivables at the Division of Medical Assistance (DMA). The \$18.7 million increase in intergovernmental receivables is primarily related to increased grants, state aid, and subsidies expenditures discussed below.

Deferred outflows of resources of \$4.0 million represent forward funded state aid for the Community Living Housing Fund in accordance with Session Law 2013-397, Section 122E-3A.

Total liabilities increased \$39.5 million, or 2.9%, compared to fiscal year 2017. This increase is primarily related to an increase of \$43.6 million in payables to the federal government and an \$18.3 million increase in general accounts payable. The increase in federal intergovernmental payables corresponds to the drug rebates discussed earlier, offset by decreased cost settlement payables as compared to the prior year. Accounts payable increased primarily due to the Division of Child Development making payments directly to child care centers as opposed to reimbursing counties, as in prior years. The increases were partially offset by a decrease in the medical claims payable of \$16.0 million. DMA medical claims payable decrease 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 \$3.5 million, or 33.6%, due to increased rates and volumes for patient services at DSOHF.

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

	2018	2017 (Restated)
Revenues		
Federal Funds	\$ 13,649,859,965	\$ 13,579,653,528
Other Revenues	596,158,950	660,888,635
Total Revenues	<u>14,246,018,915</u>	<u>14,240,542,163</u>
Expenditures		
Salaries and Benefits	1,105,400,961	1,074,066,080
Contracted Personal Services	433,683,565	392,602,675
Supplies and Materials	54,212,485	54,714,397
Travel	8,412,773	8,003,807
Communication	10,151,596	9,622,750
Utilities	16,495,885	16,786,899
Data Processing Services	12,219,137	22,363,735
Other Services	17,535,927	15,090,186
Other Fixed Charges	19,395,423	17,778,714
Capital Outlay	49,120,115	66,559,267
Grants, State Aid, and Subsidies	17,397,391,670	17,285,655,943
Expenditures to Other State Agencies	183,213,100	192,837,959
Other Expenditures	41,581,376	41,253,988
Total Expenditures	<u>19,348,814,013</u>	<u>19,197,336,400</u>
Excess Expenditures Over Revenues	<u>(5,102,795,098)</u>	<u>(4,956,794,237)</u>
Other Financing Sources (Uses)		
State Appropriations	5,187,145,036	4,927,221,843
Transfers In	463,323,277	473,043,643
Transfers Out	(463,323,277)	(473,043,643)
Transfers from State Reserve Fund	177,537,127	184,269,193
Transfers to State Reserve Fund	(148,198,853)	(178,000,000)
Other	21,583,403	745,403
Total Other Financing Sources	<u>5,238,066,713</u>	<u>4,934,236,439</u>
Net Change in Fund Balances	135,271,615	(22,557,798)
Fund Balances - Beginning of Year, as Restated	<u>(255,575,257)</u>	<u>(233,017,459)</u>
Fund Balances - End of Year	<u>\$ (120,303,642)</u>	<u>\$ (255,575,257)</u>

Federal funds increased \$70.2 million, or 0.5% compared to the prior year, primarily due to increased grants, state aid, and subsidies expenditures, as discussed below. 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 offset by a decrease of \$64.7 million in other revenues, primarily due to a \$50.1 million decrease in miscellaneous revenues at DMA. In the prior year, DMA received a non-recurring payment of \$31.0 million for medical loss ratios from July 2014 through June 2016. Revenues from other state agencies also decreased \$14.6 million related to decreased transfers from the Office of State Budget and Management for capital projects.

Total expenditures increased \$151.5 million, or 0.8% compared to the prior year. The increase was primarily due to an increase of \$111.7 million, or 0.7%, in spending for grants, state aid,

and subsidies. The increase in grant expenditures was primarily at DMA due to increased enrollment in the Medicaid and NC Health Choice programs compared to prior year. See supplementary Exhibit O-2 for further details on DMA's grant expenditures.

Expenditures for salaries and benefits increased \$31.3 million due to legislative salary increases. Contracted personal services expenditures increased \$41.1 million, which primarily consisted of computer automation and application services related projects. These increases were partially offset by decreases of \$10.1 million in data processing services and \$17.4 million in capital outlay. Data processing services decreased due to a reduction of rates for server hosting. Capital outlay decreased due to a decrease in purchases of computer equipment and software compared to the prior year as well as construction wrapping up at the Division of Mental Health.

Total other financing sources increased \$303.8 million, or 6.2%, compared to the prior year. State appropriations increased \$259.9 million, or 5.3%, primarily due to the total increase in grants, state aid, and subsidies expenditures as well as increased appropriations for child care assistance programs. State appropriations are used to provide the non-federal share of the federal programs. Transfers to the state reserve fund decreased \$29.8 million due to current year cash carryforward requests. Other sources increased \$20.8 million, primarily representing undispositioned refunds received at the end of the fiscal year.

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, 2018, the Department's governmental funds reported a fund balance deficit of \$120.3 million, a decrease of \$135.3 million or 52.9%, from the prior fiscal year. 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 North Carolina 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 increased \$125.6 million (or 38.6%) to a negative \$199.9 million at June 30, 2018. The fund balance increase is primarily attributable to the current year activity as discussed above in the Statement of Revenues, Expenditures, and Changes in Fund Balances section.

Restricted fund balance increased \$13.7 million due to a \$14.0 million increase in DMA's undispositioned refunds. Unassigned fund balance increased \$116.0 million as a result of the changes in current year activity as discussed above.

Budget Variations

Data for the Department's budget variances is presented in Exhibit N-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis-Non-GAAP) of this report. This discussion focuses on the overall Department's budget variances which correspond to the individual divisions as well.

Variances – Original and Final Budget:

The final budgeted revenues and expenditures were \$426.5 million and \$421.8 million, respectively, more than the original budget. The increases are primarily comprised of a \$198.0 million increase in the final budgeted federal funds and a \$343.4 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 2017-18 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 \$413.1 million less than the final budgeted revenue amounts. Likewise, actual total expenditures were \$550.2 million less than budgeted expenditures. Budgeted revenues and expenditures were unrealized mostly due to a \$313.8 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 \$473.9 million less than budgeted.

Economic Outlook

Highlights of the divisions within the Department are listed below.

Division of Child Development and Early Education (DCDEE)

- An additional \$19.6 million was authorized in the 2018-19 adjusted budget to remove an estimated 3,700 children from the Child Care Subsidy Assistance waiting list.
- Funding for the Subsidized Child Care Assistance Program was increased by \$13.4 million for fiscal year 2019, to allow for market rate increases in three- to five-star rated child care centers and homes. Effective October 1, 2018, Tier 1 and Tier 2 counties were allowed market rate increases for children ages 0-5 to the 100th percentile of the 2015 Child Care Market Rate Study. Tier 3 counties were allowed market rate increases to the recommended 75th percentile rate for children age 3-5, based on the 2015 Child Care Market Rate Survey. These increases build on previous years' market rate increases.

Division of Health Service Regulation (DHSR)

- 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 critical to the work of DHSR during the estimated 2-3 year development of the new system.

Division of Public Health (DPH)

- In August 2018, the Division of Public Health was awarded North Carolina's Cooperative Agreement for Emergency Response: Public Health Crisis Response – a federal CDC (Centers for Disease Control and Prevention) grant to combat the opioid epidemic. The amount of the award was \$4,058,977.
- The State Laboratory for Public Health's Newborn Screening Program screens newborns for metabolic and other hereditary and congenital disorders. Three disorders were added to the Recommended Uniform Screening Panel (RUSP), and General Statute 130A-125 increased the fee which offsets costs of the program. The fee was increased from \$44 per test to \$128 per test, generating an anticipated \$6,400,000 in recurring receipt revenue. Thirty-one dollars of each fee is deposited in a non-reverting fund to replace instruments, equipment, and information technology systems used in the Newborn Screening Program.

Division of Aging and Adult Services (DAAS)

- Division of Aging and Adult Service received an increase to the Older Americans Act Funding under Title III. This increase was in excess of \$5.1 million compared to the prior year Notice of Award and is the largest increase for the Home and Community Care Block Grant (HCCBG) in more than a decade. Notice of this award was received in May 2018, so the impact for fiscal year 2018 services was limited; however, it will have a significant impact on fiscal year 2019 services as individuals from the HCCBG waiting list are served.
- According to the Carolina Population Center located at the University of North Carolina, North Carolina is the 6th fastest growing state with an 18.5% overall growth rate, and an anticipated growth rate in the 65+ years demographic of 17% by 2020. This will result in a sizeable increase in individuals that may seek access to HCCBG services in the future.

Division of Vocational Rehabilitation and Division of Services for the Blind/Deaf and Hard of Hearing – (DVR/DSB/DHH)

- The divisions of Vocational Rehabilitation and Services for the Blind are in the process of procuring a new case management system to replace the legacy system that will no longer be supported by the vendor after December 2020.
- The Division of Services for the Deaf and Hard of Hearing is in the final review of its request for proposal to replace its fifteen-year old legacy system.

Division of Social Services (DSS)

- Subsequent to the passage of S.L. 2017-41 (House Bill 630), several actions were 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 system in North Carolina. Center for the Support of Families, the chosen vendor, submitted the first phase of recommendations in August 2018.

- Develop performance outcome requirements and metrics for all programs, except Medicaid, administered by County Departments of Social Services. These performance outcomes were included in agreements implemented between the Department of Health and Human Services and each of the 100 County Departments of Social Services, effective July 1, 2018.
- 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 of Social Services received \$8,730,446 in continued funding, from Session Law 2017-57, 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 (CFSR).
- The Division of Social Services received an additional \$1,000,000 to provide evidence-based services to sexually and physically abused children and their families through 30 accredited Child Advocacy Centers across North Carolina.
- NC FAST Projects 4, 8, 9, and 12 are all scheduled to be completed within fiscal year 2019 and Project 5 will begin in 2020 and is scheduled to be completed in 2021.

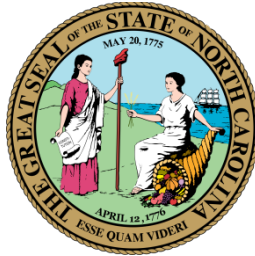
Division of Mental Health/Developmental Disabilities and Substance Abuse Services (Mental Health)

- Session Law 2017-57, Section 11F.2.(d) will allow the Department of Health and Human Services, Division of Medical Assistance (DMA) to transfer to Mental Health funds not to exceed the amount of the certified surplus or \$30 million, whichever is less.
- Session Law 2018-5, Section 11F.9.(a) appropriated \$5 million in recurring funds for the new Broughton Hospital beginning with the 2018-2019 fiscal year. These funds are specifically for (1) The creation of no more than 169 full-time equivalent positions assigned to the new Broughton Hospital, (2) Costs directly related to planning for and transitioning patients from the old Broughton Hospital to the new Broughton Hospital, and (3) Operational costs for new beds at the new Broughton Hospital.

Division of Health Benefits (DHB)

- 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.
- Medicaid managed care Standard Plans will launch in two phases. The first will launch in November 2019 for beneficiaries in the following 27 counties: Alamance, Alleghany, Ashe, Caswell, Chatham, Davidson, Davie, Durham, Forsyth, Franklin, Granville, Guilford, Johnston, Nash, Orange, Person, Randolph, Rockingham, Stokes, Surry, Vance, Wake, Warren, Watauga, Wilkes, Wilson and Yadkin. Standard Plans will launch in the remaining counties in February 2020.

- Starting in June 2019, Medicaid beneficiaries who will transition to Medicaid managed care will receive more information on the Prepaid Health Plans in their area, including how to find out which plans include their doctor, and a phone number to get help to understand their choices. Those who live in the 27 counties launching in November 2019 will select a plan starting in July 2019. Beneficiaries in all other counties will select a plan starting in October 2019.
- During 2018, DHB renewed the three existing vendor contracts to support the ongoing Medicaid transformation efforts. These vendors supported the program design, the actuarial services for the new managed care rates, as well as the business IT systems integration, design, and planning.
- DHB ended 2018 with a cash balance of \$10.3 million. This amount was approved as a carryforward to help support the ongoing Medicaid transformation efforts.
- On February 4, 2019, the Department awarded four state wide contracts to operate the new Medicaid managed care Standard Plans. The contracts in aggregate are worth an estimated \$6 billion per year. The deadline for unsuccessful bidders to file their protests was March 6, 2019. On February 25, 2019, the Department received a protest from one of the unsuccessful bidders, My Health by Health Providers (My Health).



FINANCIAL STATEMENTS

North Carolina Department of Health and Human Services
Balance Sheet
Governmental Funds
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit A-1

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2018	Total Governmental Funds 2017 (Restated)
ASSETS				
Cash and Cash Equivalents (Note 2)	\$ 215,133,563	\$ 89,880,649	\$ 305,014,212	\$ 174,414,994
Receivables:				
Accounts Receivable, Net (Note 4)	130,916,141	631,521	131,547,662	107,260,002
Intergovernmental Receivables (Note 4)	864,684,504	1,209,152	865,893,656	847,190,219
Due from Other Funds	1,529,219	225	1,529,444	501,264
Inventories	9,199,556	156,381	9,355,937	9,593,140
Total Assets	1,221,462,983	91,877,928	1,313,340,911	1,138,959,619
DEFERRED OUTFLOWS OF RESOURCES				
Forward Funded State Aid	3,960,972	0	3,960,972	0
Total Assets and Deferred Outflows	<u>\$ 1,225,423,955</u>	<u>\$ 91,877,928</u>	<u>\$ 1,317,301,883</u>	<u>\$ 1,138,959,619</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 105,273,588	\$ 12,259,244	\$ 117,532,832	\$ 99,190,847
Intergovernmental Payables (Note 6)	315,461,084	25,657	315,486,741	271,915,592
Medical Claims Payable (Note 7)	982,383,768		982,383,768	998,428,239
Due to Other State Agencies and Funds	6,863,663	210	6,863,873	10,520,061
Due to State of North Carolina Component Units	1,290,587		1,290,587	3,966,877
Other Liabilities		5,550	5,550	4,509
Total Liabilities	1,411,272,690	12,290,661	1,423,563,351	1,384,026,125
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	14,042,002	172	14,042,174	10,508,751
FUND BALANCES				
Nonspendable Inventories	9,199,556	156,381	9,355,937	9,593,140
Restricted for Health and Human Services	72,380,189	1,047,673	73,427,862	59,683,455
Committed to Health and Human Services	23,010,497	84,203,689	107,214,186	100,222,464
Assigned to Health and Human Services	2,780,330	1,392,528	4,172,858	5,401,184
Unassigned	(307,261,309)	(7,213,176)	(314,474,485)	(430,475,500)
Total Fund Balances	(199,890,737)	79,587,095	(120,303,642)	(255,575,257)
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,225,423,955</u>	<u>\$ 91,877,928</u>	<u>\$ 1,317,301,883</u>	<u>\$ 1,138,959,619</u>

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

(1) See Note 1 and Supplementary Exhibit P-1

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit A-2

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2018	Total Governmental Funds 2017 (Restated)
REVENUES				
Federal Funds	\$ 13,589,320,806	\$ 60,539,159	\$ 13,649,859,965	\$ 13,579,653,528
Local Funds	130,633,525	16,226	130,649,751	134,598,618
Sales and Services, Net	52,790,894	2,359,624	55,150,518	55,505,263
Fees, Licenses, and Fines (Note 11)	192,856,657	3,408,263	196,264,920	191,913,201
Revenues from Other State Agencies (Note 12)	85,744,926	26,200,468	111,945,394	126,577,024
Miscellaneous Revenues	101,406,788	741,579	102,148,367	152,294,529
Total Revenues	14,152,753,596	93,265,319	14,246,018,915	14,240,542,163
EXPENDITURES				
Salaries and Benefits	1,067,360,351	38,040,610	1,105,400,961	1,074,066,080
Contracted Personal Services	413,404,341	20,279,224	433,683,565	392,602,675
Supplies and Materials	52,738,625	1,473,860	54,212,485	54,714,397
Travel	8,311,745	101,028	8,412,773	8,003,807
Communication	9,767,492	384,104	10,151,596	9,622,750
Utilities	16,476,021	19,864	16,495,885	16,786,899
Data Processing Services	12,219,137		12,219,137	22,363,735
Other Services	16,503,107	1,032,820	17,535,927	15,090,186
Other Fixed Charges	18,881,516	513,907	19,395,423	17,778,714
Capital Outlay	21,306,951	27,813,164	49,120,115	66,559,267
Grants, State Aid, and Subsidies (Exhibit O-1)	17,396,364,017	1,027,653	17,397,391,670	17,285,655,943
Expenditures to Other State Agencies (Note 12)	183,213,100		183,213,100	192,837,959
Other Expenditures	39,093,050	2,488,326	41,581,376	41,253,988
Total Expenditures	19,255,639,453	93,174,560	19,348,814,013	19,197,336,400
Excess of Revenues Over (Under) Expenditures	(5,102,885,857)	90,759	(5,102,795,098)	(4,956,794,237)
OTHER FINANCING SOURCES (USES)				
State Appropriations	5,175,353,036	11,792,000	5,187,145,036	4,927,221,843
Transfers In (Note 13 & Exhibit Q-1)	450,289,054	13,034,223	463,323,277	473,043,643
Transfers Out (Note 13 & Exhibit Q-1)	(448,013,320)	(15,309,957)	(463,323,277)	(473,043,643)
Transfers from State Reserve Fund	177,537,127		177,537,127	184,269,193
Transfers to State Reserve Fund	(148,198,853)		(148,198,853)	(178,000,000)
Other	21,528,885	54,518	21,583,403	745,403
Total Other Financing Sources	5,228,495,929	9,570,784	5,238,066,713	4,934,236,439
Net Change in Fund Balances	125,610,072	9,661,543	135,271,615	(22,557,798)
Fund Balances - Beginning of Year, as Restated (Note 19)	(325,500,809)	69,925,552	(255,575,257)	(233,017,459)
Fund Balances - End of Year	\$ (199,890,737)	\$ 79,587,095	\$ (120,303,642)	\$ (255,575,257)

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

(1) See Note 1 and Supplementary Exhibit P-2

North Carolina Department of Health and Human Services
Balance Sheet By Division
Governmental Funds
June 30, 2018 (With Comparative Totals for June 30, 2017)

	Central Administration (1)	Medical Assistance (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)
ASSETS					
Cash and Cash Equivalents (Note 2)	\$ 135,832,285	\$ 43,728,882	\$ 274,931	\$ 32,966,717	\$ 2,925,896
Receivables:					
Accounts Receivable, Net (Note 4)	29,830	86,156,035	980,467	559,110	5,772,081
Intergovernmental Receivables (Note 4)	10,845,559	702,705,245	29,107,805	2,134,872	21,707,785
Due from Other Funds	84,053	1,320,908			
Inventories	191,390	8,953	12,598	6,974	3,693,884
Total Assets	146,983,117	833,920,023	30,375,801	35,667,673	34,099,646
DEFERRED OUTFLOWS OF RESOURCES					
Forward Funded State Aid	201,142	206,349	0	0	0
Total Assets and Deferred Outflows	\$ 147,184,259	\$ 834,126,372	\$ 30,375,801	\$ 35,667,673	\$ 34,099,646
LIABILITIES					
Accounts Payable and Accrued Liabilities					
Accounts Payable	\$ 10,084,857	\$ 7,790,128	\$ 35,066,047	\$ 2,026,689	\$ 24,414,838
Intergovernmental Payables (Note 6)	114,347,866	92,289,131	5,262,690	175,455	10,579,417
Medical Claims Payable (Note 7)		971,097,683			245,522
Due to Other State Agencies and Funds	1,743,593	167,827	86,929	51,679	310,385
Due to State of North Carolina Component Units				291,818	441,791
Other Liabilities					
Total Liabilities	126,176,316	1,071,344,769	40,415,666	2,545,641	35,991,953
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	669	19	4,113	539,801	684,342
FUND BALANCES					
Nonspendable Inventories	191,390	8,953	12,598	6,974	3,693,884
Restricted for Health and Human Services	259	40,820,463	689,992	27,730,072	1,226,467
Committed to Health and Human Services	13,375,633	206,349	203,322	5,235,464	2,937,212
Assigned to Health and Human Services	2,780,330				
Unassigned	4,659,662	(278,254,181)	(10,949,890)	(390,279)	(10,434,212)
Total Fund Balances	21,007,274	(237,218,416)	(10,043,978)	32,582,231	(2,576,649)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 147,184,259	\$ 834,126,372	\$ 30,375,801	\$ 35,667,673	\$ 34,099,646

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

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

Exhibit B-1

Aging (6)	Blind/ Deaf Services (7)	Vocational Rehabilitation (8)	Social Services (9)	Mental Health (10)	Health Benefits (11)	Total Governmental Funds 2018	Total Governmental Funds 2017 (Restated)
\$ 0	\$ 17,517,230	\$ 1,415,344	\$ 3,083,642	\$ 67,269,285	\$ 0	\$ 305,014,212	\$ 174,414,994
	255,892	161,394	5,817,107	31,815,746		131,547,662	107,260,002
3,746,073	658,504	3,970,643	82,041,240	8,440,863	535,067	865,893,656	847,190,219
	30	27,587	61,685	35,181		1,529,444	501,264
4,397	1,059	250,983	31,441	5,145,747	8,511	9,355,937	9,593,140
3,750,470	18,432,715	5,825,951	91,035,115	112,706,822	543,578	1,313,340,911	1,138,959,619
41,409	0	0	0	3,512,072	0	3,960,972	0
<u>\$ 3,791,879</u>	<u>\$ 18,432,715</u>	<u>\$ 5,825,951</u>	<u>\$ 91,035,115</u>	<u>\$ 116,218,894</u>	<u>\$ 543,578</u>	<u>\$ 1,317,301,883</u>	<u>\$ 1,138,959,619</u>
\$ 518,426	\$ 857,725	\$ 5,118,408	\$ 4,924,091	\$ 23,897,745	\$ 2,833,878	\$ 117,532,832	\$ 99,190,847
6,920,839	52,995	210,347	84,717,264	930,737		315,486,741	271,915,592
	205,201	313,107		10,522,255		982,383,768	998,428,239
5,140	51,623	436,584	56,334	3,942,453	11,326	6,863,873	10,520,061
	3,098	516	68,622	484,341	401	1,290,587	3,966,877
				5,550		5,550	4,509
7,444,405	1,170,642	6,078,962	89,766,311	39,783,081	2,845,605	1,423,563,351	1,384,026,125
0	0	269	305,003	12,507,958	0	14,042,174	10,508,751
4,397	1,059	250,983	31,441	5,145,747	8,511	9,355,937	9,593,140
	98,688	72,529	1,494,001	1,295,391		73,427,862	59,683,455
41,409	17,588,232	772,085	1,344,079	65,510,401		107,214,186	100,222,464
				1,392,528		4,172,858	5,401,184
(3,698,332)	(425,906)	(1,348,877)	(1,905,720)	(9,416,212)	(2,310,538)	(314,474,485)	(430,475,500)
(3,652,526)	17,262,073	(253,280)	963,801	63,927,855	(2,302,027)	(120,303,642)	(255,575,257)
<u>\$ 3,791,879</u>	<u>\$ 18,432,715</u>	<u>\$ 5,825,951</u>	<u>\$ 91,035,115</u>	<u>\$ 116,218,894</u>	<u>\$ 543,578</u>	<u>\$ 1,317,301,883</u>	<u>\$ 1,138,959,619</u>

North Carolina Department of Health and Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balances By Division
Governmental Funds
For the Fiscal Year Ended June 30, 2018 (With Comparative Totals for June 30, 2017)

	Central Administration (1)	Medical Assistance (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)
REVENUES					
Federal Funds	\$ 132,257,798	\$ 9,107,318,557	\$ 355,842,301	\$ 28,550,530	\$ 450,707,485
Local Funds	334,655			511,961	4,287,611
Sales and Services, Net				515,081	1,391,041
Fees, Licenses, and Fines (Note 11)	779,826	154,364,955	2,062,563	18,932,370	16,266,850
Revenues from Other State Agencies (Note 12)	356,580	2,750,000	78,267,605	167,956	1,456,872
Miscellaneous Revenues	176,851	10,405,499	16,117	20,728	73,150,265
Total Revenues	133,905,710	9,274,839,011	436,188,586	48,698,626	547,260,124
EXPENDITURES					
Salaries and Benefits	74,201,925	31,558,693	19,496,786	43,356,793	127,715,498
Contracted Personal Services	119,435,828	139,836,564	5,102,370	3,137,427	39,788,434
Supplies and Materials	1,172,584	119,765	130,860	371,927	8,703,374
Travel	566,940	239,128	434,010	1,637,406	2,135,064
Communication	1,507,141	272,699	209,352	696,489	2,418,645
Utilities	3,390,647			3,216	200,768
Data Processing Services	11,531,975	241,390	8,664	18,182	256,588
Other Services	905,339	438,240	109,059	296,412	4,261,657
Other Fixed Charges	8,859,651	280,202	1,289,884	342,376	2,790,821
Capital Outlay	10,283,134	227,977	349,309	965,368	3,528,513
Grants, State Aid, and Subsidies (Exhibit O-1)	39,900,647	12,455,550,732	660,507,376	5,463,786	511,307,850
Expenditures to Other State Agencies (Note 12)	4,750,000	174,523,355		2,627,631	
Other Expenditures	2,902,493	900,613	4,619,650	1,435,076	9,715,036
Total Expenditures	279,408,304	12,804,189,358	692,257,320	60,352,089	712,822,248
Excess of Revenues Over (Under) Expenditures	(145,502,594)	(3,529,350,347)	(256,068,734)	(11,653,463)	(165,562,124)
OTHER FINANCING SOURCES (USES)					
State Appropriations	120,854,029	3,654,323,270	266,457,423	17,906,176	144,363,837
Transfers In (Note 13 & Exhibit Q-1)	21,277,507	159,770,729		1,283,636	14,442,991
Transfers Out (Note 13 & Exhibit Q-1)	(13,546,909)	(237,026,918)	(7,900,227)	(2,014,213)	(6,527,794)
Transfers from State Reserve Fund	4,341,679	113,292,600		482,370	724,428
Transfers to State Reserve Fund	(2,247,076)	(60,952,912)	(2,755,404)	(1,020,005)	(3,030,843)
Other	75	20,728,524			37,978
Total Other Financing Sources	130,679,305	3,650,135,293	255,801,792	16,637,964	150,010,597
Net Change in Fund Balances	(14,823,289)	120,784,946	(266,942)	4,984,501	(15,551,527)
Fund Balances - Beginning of Year, as Restated (Note 19)	35,830,563	(358,003,362)	(9,777,036)	27,597,730	12,974,878
Fund Balances - End of Year	\$ 21,007,274	\$ (237,218,416)	\$ (10,043,978)	\$ 32,582,231	\$ (2,576,649)

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

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

Exhibit B-2

Aging (6)	Blind/ Deaf Services (7)	Vocational Rehabilitation (8)	Social Services (9)	Mental Health (10)	Health Benefits (11)	Total Governmental Funds 2018	Total Governmental Funds 2017 (Restated)
\$ 52,582,949	\$ 16,207,258	\$ 147,602,337	\$ 2,854,504,341	\$ 487,009,239	\$ 17,277,170	\$ 13,649,859,965	\$ 13,579,653,528
9,584,333	623,757	2,836,069	110,336,215	2,135,150		130,649,751	134,598,618
	879,182	443,767		51,921,447		55,150,518	55,505,263
26,657	2,807,414		361,317	662,968		196,264,920	191,913,201
	10,235,892		19,515	18,690,974		111,945,394	126,577,024
86,110	391,276	2,323,827	12,129,357	3,448,176	161	102,148,367	152,294,529
62,280,049	31,144,779	153,206,000	2,977,350,745	563,867,954	17,277,331	14,246,018,915	14,240,542,163
5,454,464	19,817,469	92,675,477	26,914,620	661,604,037	2,605,199	1,105,400,961	1,074,066,080
1,591,084	3,394,622	21,589,737	15,377,525	63,678,593	20,751,381	433,683,565	392,602,675
29,100	293,424	924,084	152,553	42,305,925	8,889	54,212,485	54,714,397
130,830	730,717	1,142,519	863,138	504,461	28,560	8,412,773	8,003,807
36,110	328,202	1,400,103	713,443	2,552,270	17,142	10,151,596	9,622,750
	19,238	384,331	229	12,497,456		16,495,885	16,786,899
2,135	6,880	12,610	134,060	5,866	787	12,219,137	22,363,735
34,433	590,506	885,554	5,544,082	4,250,878	219,767	17,535,927	15,090,186
23,583	75,019	623,705	217,557	4,884,767	7,858	19,395,423	17,778,714
40,324	849,768	3,456,763	239,501	28,978,619	200,839	49,120,115	66,559,267
101,887,074	10,023,153	61,274,599	3,115,356,903	436,119,550		17,397,391,670	17,285,655,943
		698,938	433,176	180,000		183,213,100	192,837,959
153,539	1,274,679	7,149,257	684,581	12,746,347	105	41,581,376	41,253,988
109,382,676	37,403,677	192,217,677	3,166,631,368	1,270,308,769	23,840,527	19,348,814,013	19,197,336,400
(47,102,627)	(6,258,898)	(39,011,677)	(189,280,623)	(706,440,815)	(6,563,196)	(5,102,795,098)	(4,956,794,237)
46,326,140	8,086,322	37,120,411	194,627,177	687,357,387	9,722,864	5,187,145,036	4,927,221,843
341,448	12,269,362	2,707,934	9,424,946	241,804,724		463,323,277	473,043,643
(131,608)	(13,037,193)	(678,818)	(9,721,752)	(172,737,845)		(463,323,277)	(473,043,643)
41,409			1,228,115	51,699,493	5,727,033	177,537,127	184,269,193
(647,294)	(79,062)		(3,321,357)	(63,825,137)	(10,319,763)	(148,198,853)	(178,000,000)
	54,518	4,157		758,151		21,583,403	745,403
45,930,095	7,293,947	39,153,684	192,237,129	745,056,773	5,130,134	5,238,066,713	4,934,236,439
(1,172,532)	1,035,049	142,007	2,956,506	38,615,958	(1,433,062)	135,271,615	(22,557,798)
(2,479,994)	16,227,024	(395,287)	(1,992,705)	25,311,897	(868,965)	(255,575,257)	(233,017,459)
\$ (3,652,526)	\$ 17,262,073	\$ (253,280)	\$ 963,801	\$ 63,927,855	\$ (2,302,027)	\$ (120,303,642)	\$ (255,575,257)

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Central Administration
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit C-1

	General Fund	Capital Projects Fund	Total Central Administration 2018	Total Central Administration 2017
ASSETS				
Cash and Cash Equivalents	\$ 134,845,956	\$ 986,329	\$ 135,832,285	\$ 39,184,701
Receivables:				
Accounts Receivable, Net (Note 4)	29,830		29,830	8,715
Intergovernmental Receivables	10,845,559		10,845,559	15,812,550
Due from Other Funds	84,053		84,053	234,150
Inventories	191,390		191,390	225,646
Total Assets	145,996,788	986,329	146,983,117	55,465,762
DEFERRED OUTFLOWS OF RESOURCES				
Forward Funded State Aid	201,142	0	201,142	0
Total Assets and Deferred Outflows	<u>\$ 146,197,930</u>	<u>\$ 986,329</u>	<u>\$ 147,184,259</u>	<u>\$ 55,465,762</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 9,832,761	\$ 252,096	\$ 10,084,857	\$ 14,735,379
Intergovernmental Payables	114,347,866		114,347,866	97,387
Due to Other State Agencies and Funds	1,743,593		1,743,593	4,802,161
Total Liabilities	125,924,220	252,096	126,176,316	19,634,927
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	669	0	669	272
FUND BALANCES				
Nonspendable Inventories	191,390		191,390	225,646
Restricted for Health and Human Services	259		259	
Committed to Health and Human Services	12,574,493	801,140	13,375,633	18,388,676
Assigned to Health and Human Services	2,780,330		2,780,330	4,181,805
Unassigned	4,726,569	(66,907)	4,659,662	13,034,436
Total Fund Balances	20,273,041	734,233	21,007,274	35,830,563
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 146,197,930</u>	<u>\$ 986,329</u>	<u>\$ 147,184,259</u>	<u>\$ 55,465,762</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 Central Administration

For the Fiscal Year Ended June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit C-2

	General Fund	Capital Projects Fund	Total Central Administration 2018	Total Central Administration 2017
REVENUES				
Federal Funds	\$ 132,257,798	\$ 0	\$ 132,257,798	\$ 143,347,869
Local Funds	334,655		334,655	272,331
Fees, Licenses, and Fines	779,826		779,826	775,152
Revenues from Other State Agencies	300,000	56,580	356,580	1,754,578
Miscellaneous Revenues	176,851		176,851	439,031
Total Revenues	133,849,130	56,580	133,905,710	146,588,961
EXPENDITURES				
Salaries and Benefits	74,201,925		74,201,925	69,473,220
Contracted Personal Services	119,435,828		119,435,828	114,314,879
Supplies and Materials	1,172,584		1,172,584	5,874,542
Travel	566,940		566,940	382,662
Communication	1,507,141		1,507,141	1,621,657
Utilities	3,390,647		3,390,647	3,209,760
Data Processing Services	11,531,975		11,531,975	21,168,621
Other Services	905,339		905,339	580,301
Other Fixed Charges	8,859,651		8,859,651	7,650,823
Capital Outlay	8,839,740	1,443,394	10,283,134	17,031,250
Grants, State Aid, and Subsidies	39,900,647		39,900,647	27,155,575
Expenditures to Other State Agencies (Note 12)	4,750,000		4,750,000	3,248,059
Other Expenditures	2,902,493		2,902,493	2,567,714
Total Expenditures	277,964,910	1,443,394	279,408,304	274,279,063
Excess of Revenues Over (Under) Expenditures	(144,115,780)	(1,386,814)	(145,502,594)	(127,690,102)
OTHER FINANCING SOURCES (USES)				
State Appropriations	120,298,029	556,000	120,854,029	112,158,656
Transfers In (Exhibit Q-1)	21,277,507		21,277,507	32,671,993
Transfers Out (Exhibit Q-1)	(13,546,909)		(13,546,909)	(13,967,455)
Transfers from State Reserve Fund	4,341,679		4,341,679	3,125,290
Transfers to State Reserve Fund	(2,247,076)		(2,247,076)	(4,341,679)
Other	75		75	76
Total Other Financing Sources	130,123,305	556,000	130,679,305	129,646,881
Net Change in Fund Balances	(13,992,475)	(830,814)	(14,823,289)	1,956,779
Fund Balances - Beginning of Year	34,265,516	1,565,047	35,830,563	33,873,784
Fund Balances - End of Year	\$ 20,273,041	\$ 734,233	\$ 21,007,274	\$ 35,830,563

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Medical Assistance
June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit D-1

	General Fund	
	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 43,728,882	\$ 26,719,439
Receivables:		
Accounts Receivable, Net (Note 4)	86,156,035	61,701,342
Intergovernmental Receivables	702,705,245	685,524,255
Due from Other Funds	1,320,908	27,756
Inventories	8,953	10,977
Total Assets	833,920,023	773,983,769
DEFERRED OUTFLOWS OF RESOURCES		
Forward Funded State Aid	206,349	0
Total Assets and Deferred Outflows	\$ 834,126,372	\$ 773,983,769
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 7,790,128	\$ 7,097,466
Intergovernmental Payables	92,289,131	135,414,002
Medical Claims Payable (Note 7)	971,097,683	989,113,616
Due to Other State Agencies and Funds	167,827	362,047
Total Liabilities	1,071,344,769	1,131,987,131
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	19	0
FUND BALANCE		
Nonspendable Inventories	8,953	10,977
Restricted for Health and Human Services	40,820,463	26,585,572
Committed to Health and Human Services	206,349	
Unassigned	(278,254,181)	(384,599,911)
Total Fund Balance	(237,218,416)	(358,003,362)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 834,126,372	\$ 773,983,769

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, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit D-2

	General Fund	
	2018	2017
REVENUES		
Federal Funds	\$ 9,107,318,557	\$ 8,837,591,524
Fees, Licenses, and Fines (Note 11)	154,364,955	152,267,617
Revenues from Other State Agencies (Note 12)	2,750,000	6,434
Miscellaneous Revenues	10,405,499	47,494,005
Total Revenues	9,274,839,011	9,037,359,580
EXPENDITURES		
Salaries and Benefits	31,558,693	29,879,213
Contracted Personal Services	139,836,564	121,523,496
Supplies and Materials	119,765	110,737
Travel	239,128	178,895
Communication	272,699	301,144
Utilities		9
Data Processing Services	241,390	1,133
Other Services	438,240	410,719
Other Fixed Charges	280,202	79,262
Capital Outlay	227,977	286,646
Grants, State Aid, and Subsidies (Exhibit O-2)	12,455,550,732	12,169,202,809
Expenditures to Other State Agencies (Note 12)	174,523,355	178,618,889
Other Expenditures	900,613	866,097
Total Expenditures	12,804,189,358	12,501,459,049
Excess of Revenues Over (Under) Expenditures	(3,529,350,347)	(3,464,099,469)
OTHER FINANCING SOURCES (USES)		
State Appropriations	3,654,323,270	3,516,049,313
Transfers In (Exhibit Q-1)	159,770,729	159,594,849
Transfers Out (Exhibit Q-1)	(237,026,918)	(232,520,683)
Transfers from State Reserve Fund	113,292,600	112,720,747
Transfers to State Reserve Fund	(60,952,912)	(113,438,049)
Other	20,728,524	(74,069)
Total Other Financing Sources	3,650,135,293	3,442,332,108
Net Change in Fund Balance	120,784,946	(21,767,361)
Fund Balance - Beginning of Year	(358,003,362)	(336,236,001)
Fund Balance - End of Year	<u>\$ (237,218,416)</u>	<u>\$ (358,003,362)</u>

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Child Development and Early Education
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit E-1

	General Fund	Capital Projects Fund	Total Child Development 2018	Total Child Development 2017
ASSETS				
Cash and Cash Equivalents	\$ 0	\$ 274,931	\$ 274,931	\$ 328,240
Receivables:				
Accounts Receivable, Net (Note 4)	980,467		980,467	647,095
Intergovernmental Receivables	29,107,805		29,107,805	17,732,797
Inventories	12,598		12,598	11,706
Total Assets	30,100,870	274,931	30,375,801	18,719,838
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	\$ 30,100,870	\$ 274,931	\$ 30,375,801	\$ 18,719,838
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 34,987,662	\$ 78,385	\$ 35,066,047	\$ 478,696
Intergovernmental Payables	5,262,690		5,262,690	27,882,598
Due to Other State Agencies and Funds	86,929		86,929	131,530
Total Liabilities	40,337,281	78,385	40,415,666	28,492,824
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	4,113	0	4,113	4,050
FUND BALANCES				
Nonspendable Inventories	12,598		12,598	11,706
Restricted for Health and Human Services	689,992		689,992	629,598
Committed to Health and Human Services		203,322	203,322	328,240
Unassigned	(10,943,114)	(6,776)	(10,949,890)	(10,746,580)
Total Fund Balances	(10,240,524)	196,546	(10,043,978)	(9,777,036)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 30,100,870	\$ 274,931	\$ 30,375,801	\$ 18,719,838

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit E-2

	General Fund	Capital Projects Fund	Total Child Development 2018	Total Child Development 2017
REVENUES				
Federal Funds	\$ 355,842,301	\$ 0	\$ 355,842,301	\$ 361,556,825
Fees, Licenses, and Fines (Note 11)	2,062,563		2,062,563	2,026,954
Revenues from Other State Agencies (Note 12)	78,252,110	15,495	78,267,605	78,253,529
Miscellaneous Revenues	16,117		16,117	20,401
Total Revenues	436,173,091	15,495	436,188,586	441,857,709
EXPENDITURES				
Salaries and Benefits	19,496,786		19,496,786	18,037,354
Contracted Personal Services	5,102,370		5,102,370	7,849,371
Supplies and Materials	130,860		130,860	86,466
Travel	434,010		434,010	456,404
Communication	209,352		209,352	223,499
Data Processing Services	8,664		8,664	836,616
Other Services	109,059		109,059	206,505
Other Fixed Charges	1,289,884		1,289,884	2,147,078
Capital Outlay	202,120	147,189	349,309	221,374
Grants, State Aid, and Subsidies (Exhibit O-3)	660,507,376		660,507,376	641,483,332
Other Expenditures:				
Scholarships	4,266,029		4,266,029	3,584,771
Other	353,621		353,621	482,966
Total Expenditures	692,110,131	147,189	692,257,320	675,615,736
Excess of Revenues Over (Under) Expenditures	(255,937,040)	(131,694)	(256,068,734)	(233,758,027)
OTHER FINANCING SOURCES (USES)				
State Appropriations	266,457,423		266,457,423	232,928,695
Transfers Out (Exhibit Q-1)	(7,900,227)		(7,900,227)	(3,633,962)
Transfers from State Reserve Fund				478,688
Transfers to State Reserve Fund	(2,755,404)		(2,755,404)	
Total Other Financing Sources	255,801,792	0	255,801,792	229,773,421
Net Change in Fund Balances	(135,248)	(131,694)	(266,942)	(3,984,606)
Fund Balances - Beginning of Year	(10,105,276)	328,240	(9,777,036)	(5,792,430)
Fund Balances - End of Year	\$ (10,240,524)	\$ 196,546	\$ (10,043,978)	\$ (9,777,036)

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Health Service Regulation
June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit F-1

	General Fund	
	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 32,966,717	\$ 27,165,666
Receivables:		
Accounts Receivable, Net (Note 4)	559,110	562,614
Intergovernmental Receivables	2,134,872	1,565,649
Due from Other Funds		53,679
Inventories	6,974	11,050
	<u>35,667,673</u>	<u>29,358,658</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>
	<u>\$ 35,667,673</u>	<u>\$ 29,358,658</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 2,026,689	\$ 867,477
Intergovernmental Payables	175,455	12,334
Due to Other State Agencies and Funds	51,679	167,914
Due to State of North Carolina Component Units	291,818	172,541
	<u>2,545,641</u>	<u>1,220,266</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	<u>539,801</u>	<u>540,662</u>
FUND BALANCE		
Nonspendable Inventories	6,974	11,050
Restricted for Health and Human Services	27,730,072	22,830,486
Committed to Health and Human Services	5,235,464	4,756,194
Unassigned	<u>(390,279)</u>	<u></u>
	<u>32,582,231</u>	<u>27,597,730</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 35,667,673</u>	<u>\$ 29,358,658</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 Service Regulation

For the Fiscal Year Ended June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit F-2

	General Fund	
	2018	2017
REVENUES		
Federal Funds	\$ 28,550,530	\$ 29,619,212
Local Funds	511,961	485,876
Sales and Services	515,081	316,499
Fees, Licenses, and Fines (Note 11)	18,932,370	16,646,994
Revenues from Other State Agencies	167,956	511,736
Miscellaneous Revenues	20,728	124,317
Total Revenues	48,698,626	47,704,634
EXPENDITURES		
Salaries and Benefits	43,356,793	42,514,205
Contracted Personal Services	3,137,427	3,288,219
Supplies and Materials	371,927	367,662
Travel	1,637,406	1,617,808
Communication	696,489	575,061
Utilities	3,216	16,445
Data Processing Services	18,182	10,235
Other Services	296,412	335,477
Other Fixed Charges	342,376	304,241
Capital Outlay	965,368	1,188,823
Grants, State Aid, and Subsidies	5,463,786	4,917,721
Expenditures to Other State Agencies (Note 12)	2,627,631	2,838,531
Other Expenditures	1,435,076	1,430,509
Total Expenditures	60,352,089	59,404,937
Excess of Revenues Over (Under) Expenditures	(11,653,463)	(11,700,303)
OTHER FINANCING SOURCES (USES)		
State Appropriations	17,906,176	15,653,331
Transfers In (Exhibit Q-1)	1,283,636	701,467
Transfers Out (Exhibit Q-1)	(2,014,213)	(1,201,468)
Transfers from State Reserve Fund	482,370	664,201
Transfers to State Reserve Fund	(1,020,005)	(482,370)
Total Other Financing Sources	16,637,964	15,335,161
Net Change in Fund Balance	4,984,501	3,634,858
Fund Balance - Beginning of Year	27,597,730	23,962,872
Fund Balance - End of Year	\$ 32,582,231	\$ 27,597,730

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Public Health
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit G-1

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Public Health 2018	Total Public Health 2017 (Restated)
ASSETS					
Cash and Cash Equivalents	\$ 444,859	\$ 2,481,037	\$ 0	\$ 2,925,896	\$ 2,465,914
Receivables:					
Accounts Receivable, Net (Note 4)	5,766,856	5,225		5,772,081	9,036,074
Intergovernmental Receivables	21,707,785			21,707,785	26,314,658
Due from Other Funds					17,376
Inventories	3,693,884			3,693,884	3,397,362
Total Assets	31,613,384	2,486,262	0	34,099,646	41,231,384
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 31,613,384	\$ 2,486,262	\$ 0	\$ 34,099,646	\$ 41,231,384
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 24,401,754	\$ 1,109	\$ 11,975	\$ 24,414,838	\$ 18,699,510
Intergovernmental Payables	10,579,417			10,579,417	6,557,319
Medical Claims Payable	245,522			245,522	238,321
Due to Other State Agencies and Funds	310,385			310,385	974,927
Due to State of North Carolina Component Units	441,791			441,791	887,747
Total Liabilities	35,978,869	1,109	11,975	35,991,953	27,357,824
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	684,342	0	0	684,342	898,682
FUND BALANCES					
Nonspendable Inventories	3,693,884			3,693,884	3,397,362
Restricted for Health and Human Services	1,226,467			1,226,467	7,091,818
Committed to Health and Human Services	452,059	2,485,153		2,937,212	2,488,853
Unassigned	(10,422,237)		(11,975)	(10,434,212)	(3,155)
Total Fund Balances	(5,049,827)	2,485,153	(11,975)	(2,576,649)	12,974,878
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 31,613,384	\$ 2,486,262	\$ 0	\$ 34,099,646	\$ 41,231,384

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit G-2

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Public Health 2018	Total Public Health 2017 (Restated)
REVENUES					
Federal Funds	\$ 450,707,485	\$ 0	\$ 0	\$ 450,707,485	\$ 461,082,917
Local Funds	4,287,611			4,287,611	5,506,205
Sales and Services	1,391,041			1,391,041	1,320,223
Fees, Licenses, and Fines (Note 11)	15,666,118	600,732		16,266,850	16,004,105
Revenues from Other State Agencies (Note 12)	1,244,148		212,724	1,456,872	2,706,408
Miscellaneous Revenues:					
Rebates	70,267,100			70,267,100	72,723,307
Contributions, Gifts, and Grants	1,819,189			1,819,189	2,337,621
Other	1,063,516	460		1,063,976	494,474
Total Revenues	546,446,208	601,192	212,724	547,260,124	562,175,260
EXPENDITURES					
Salaries and Benefits	127,593,083	122,415		127,715,498	123,208,195
Contracted Personal Services	39,773,879	14,555		39,788,434	37,087,736
Supplies and Materials	8,698,655	4,719		8,703,374	4,967,344
Travel	2,124,344	10,720		2,135,064	2,121,099
Communication	2,417,323	1,322		2,418,645	2,100,199
Utilities	200,768			200,768	181,230
Data Processing Services	256,588			256,588	218,859
Other Services	4,250,167	11,490		4,261,657	4,002,411
Other Fixed Charges	2,789,791	1,030		2,790,821	2,043,147
Capital Outlay	3,303,458	3,511	221,544	3,528,513	6,321,531
Grants, State Aid, and Subsidies (Exhibit O-4)	511,244,552	63,298		511,307,850	530,130,789
Other Expenditures	9,713,219	1,817		9,715,036	8,338,371
Total Expenditures	712,365,827	234,877	221,544	712,822,248	720,720,911
Excess of Revenues Over (Under) Expenditures	(165,919,619)	366,315	(8,820)	(165,562,124)	(158,545,651)
OTHER FINANCING SOURCES (USES)					
State Appropriations	144,363,837			144,363,837	165,280,261
Transfers In (Exhibit Q-1)	14,442,991			14,442,991	12,778,577
Transfers Out (Exhibit Q-1)	(6,527,794)			(6,527,794)	(16,071,723)
Transfers from State Reserve Fund	724,428			724,428	2,126,659
Transfers to State Reserve Fund	(3,030,843)			(3,030,843)	(724,428)
Other	37,978			37,978	14,936
Total Other Financing Sources	150,010,597	0	0	150,010,597	163,404,282
Net Change in Fund Balances	(15,909,022)	366,315	(8,820)	(15,551,527)	4,858,631
Fund Balances - Beginning of Year, as Restated (Note 19)	10,859,195	2,118,838	(3,155)	12,974,878	8,116,247
Fund Balances - End of Year	<u>\$ (5,049,827)</u>	<u>\$ 2,485,153</u>	<u>\$ (11,975)</u>	<u>\$ (2,576,649)</u>	<u>\$ 12,974,878</u>

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Aging and Adult Services
June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit H-1

	General Fund	
	2018	2017
ASSETS		
Receivables:		
Intergovernmental Receivables	\$ 3,746,073	\$ 4,465,541
Inventories	4,397	1,948
Total Assets	3,750,470	4,467,489
DEFERRED OUTFLOWS OF RESOURCES		
Forward Funded State Aid	41,409	0
Total Assets and Deferred Outflows	\$ 3,791,879	\$ 4,467,489
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 518,426	\$ 215,895
Intergovernmental Payables	6,920,839	6,718,124
Due to Other State Agencies and Funds	5,140	13,464
Total Liabilities	7,444,405	6,947,483
DEFERRED INFLOWS OF RESOURCES	0	0
FUND BALANCE		
Nonspendable Inventories	4,397	1,948
Committed to Health and Human Services	41,409	
Unassigned	(3,698,332)	(2,481,942)
Total Fund Balance	(3,652,526)	(2,479,994)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 3,791,879	\$ 4,467,489

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, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit H-2

	General Fund	
	2018	2017
REVENUES		
Federal Funds	\$ 52,582,949	\$ 52,393,561
Local Funds	9,584,333	9,685,241
Fees, Licenses, and Fines	26,657	24,273
Miscellaneous Revenues	86,110	149,047
Total Revenues	62,280,049	62,252,122
EXPENDITURES		
Salaries and Benefits	5,454,464	5,307,845
Contracted Personal Services	1,591,084	1,581,332
Supplies and Materials	29,100	30,223
Travel	130,830	143,974
Communication	36,110	40,557
Data Processing Services	2,135	
Other Services	34,433	25,229
Other Fixed Charges	23,583	18,578
Capital Outlay	40,324	37,561
Grants, State Aid, and Subsidies	101,887,074	98,379,870
Expenditures to Other State Agencies		294,138
Other Expenditures	153,539	136,864
Total Expenditures	109,382,676	105,996,171
Excess of Revenues Over (Under) Expenditures	(47,102,627)	(43,744,049)
OTHER FINANCING SOURCES (USES)		
State Appropriations	46,326,140	43,901,250
Transfers In (Exhibit Q-1)	341,448	330,934
Transfers Out (Exhibit Q-1)	(131,608)	(812)
Transfers from State Reserve Fund	41,409	144,138
Transfers to State Reserve Fund	(647,294)	(41,409)
Total Other Financing Sources	45,930,095	44,334,101
Net Change in Fund Balance	(1,172,532)	590,052
Fund Balance - Beginning of Year	(2,479,994)	(3,070,046)
Fund Balance - End of Year	\$ (3,652,526)	\$ (2,479,994)

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

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit I-1

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2018	Total Blind/Deaf Services 2017
ASSETS					
Cash and Cash Equivalents	\$ 0	\$ 570,206	\$ 16,947,024	\$ 17,517,230	\$ 16,406,780
Receivables:					
Accounts Receivable, Net (Note 4)	4,064	37,211	214,617	255,892	411,237
Intergovernmental Receivables	658,504			658,504	620,244
Due from Other Funds	30			30	
Inventories	1,059			1,059	33,198
Total Assets	663,657	607,417	17,161,641	18,432,715	17,471,459
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 663,657	\$ 607,417	\$ 17,161,641	\$ 18,432,715	\$ 17,471,459
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 700,004	\$ 157,721	\$ 0	\$ 857,725	\$ 827,751
Intergovernmental Payables	52,995			52,995	219,237
Medical Claims Payable	205,201			205,201	143,382
Due to Other State Agencies and Funds	51,623			51,623	42,512
Due to Component Units	3,098			3,098	11,550
Total Liabilities	1,012,921	157,721	0	1,170,642	1,244,432
DEFERRED INFLOWS OF RESOURCES	0	0	0	0	3
FUND BALANCES					
Nonspendable Inventories	1,059			1,059	33,198
Restricted for Health and Human Services		98,688		98,688	24,369
Committed to Health and Human Services		426,591	17,161,641	17,588,232	16,578,165
Assigned to Health and Human Services					8,704
Unassigned	(350,323)	(75,583)		(425,906)	(417,412)
Total Fund Balances	(349,264)	449,696	17,161,641	17,262,073	16,227,024
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 663,657	\$ 607,417	\$ 17,161,641	\$ 18,432,715	\$ 17,471,459

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit I-2

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2018	Total Blind/Deaf Services 2017
REVENUES					
Federal Funds	\$ 15,269,130	\$ 938,128	\$ 0	\$ 16,207,258	\$ 15,183,480
Local Funds	623,757			623,757	602,205
Sales and Services		879,182		879,182	1,061,070
Fees, Licenses, and Fines (Note 11)			2,807,414	2,807,414	3,145,289
Revenues from Other State Agencies (Note 12)	468		10,235,424	10,235,892	9,934,272
Miscellaneous Revenues	83,128	80,837	227,311	391,276	336,228
Total Revenues	15,976,483	1,898,147	13,270,149	31,144,779	30,262,544
EXPENDITURES					
Salaries and Benefits	19,817,469			19,817,469	18,672,936
Contracted Personal Services	3,379,449	15,173		3,394,622	3,562,371
Supplies and Materials	273,698	19,726		293,424	308,055
Travel	691,006	39,711		730,717	637,695
Communication	328,202			328,202	361,475
Utilities	16,762	2,476		19,238	15,357
Data Processing Services	6,880			6,880	316
Other Services	152,542	437,964		590,506	556,997
Other Fixed Charges	71,119	3,900		75,019	73,221
Capital Outlay	200,484	649,284		849,768	533,433
Grants, State Aid, and Subsidies	9,724,495	298,658		10,023,153	10,328,666
Other Expenditures	1,258,407	16,272		1,274,679	1,250,690
Total Expenditures	35,920,513	1,483,164	0	37,403,677	36,301,212
Excess of Revenues Over (Under) Expenditures	(19,944,030)	414,983	13,270,149	(6,258,898)	(6,038,668)
OTHER FINANCING SOURCES (USES)					
State Appropriations	8,086,322			8,086,322	7,702,995
Transfers In (Exhibit Q-1)	12,264,126	5,236		12,269,362	12,735,210
Transfers Out (Exhibit Q-1)	(297,330)	(534,190)	(12,205,673)	(13,037,193)	(14,240,749)
Transfers to State Reserve Fund	(79,062)			(79,062)	
Other		54,518		54,518	37,074
Total Other Financing Sources (Uses)	19,974,056	(474,436)	(12,205,673)	7,293,947	6,234,530
Net Change in Fund Balances	30,026	(59,453)	1,064,476	1,035,049	195,862
Fund Balances - Beginning of Year	(379,290)	509,149	16,097,165	16,227,024	16,031,162
Fund Balances - End of Year	<u>\$ (349,264)</u>	<u>\$ 449,696</u>	<u>\$ 17,161,641</u>	<u>\$ 17,262,073</u>	<u>\$ 16,227,024</u>

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Vocational Rehabilitation
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit J-1

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation 2018	Total Vocational Rehabilitation 2017
ASSETS					
Cash and Cash Equivalents	\$ 63,507	\$ 211,848	\$ 1,139,989	\$ 1,415,344	\$ 2,649,527
Receivables:					
Accounts Receivable, Net (Note 4)	161,222	172		161,394	38,435
Intergovernmental Receivables	2,768,418	1,202,225		3,970,643	5,011,746
Due from Other Funds	27,587			27,587	
Inventories	122,542	128,441		250,983	256,519
Total Assets	3,143,276	1,542,686	1,139,989	5,825,951	7,956,227
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 3,143,276	\$ 1,542,686	\$ 1,139,989	\$ 5,825,951	\$ 7,956,227
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 3,417,355	\$ 1,329,099	\$ 371,954	\$ 5,118,408	\$ 6,629,678
Intergovernmental Payables	184,690	25,657		210,347	876,829
Medical Claims Payable	313,107			313,107	486,996
Due to Other State Agencies and Funds	436,374	210		436,584	335,822
Due to Component Units	516			516	21,877
Other Liabilities					312
Total Liabilities	4,352,042	1,354,966	371,954	6,078,962	8,351,514
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	97	172	0	269	0
FUND BALANCES					
Nonspendable Inventories	122,542	128,441		250,983	256,519
Restricted for Health and Human Services	63,507	9,022		72,529	
Committed to Health and Human Services			772,085	772,085	2,643,375
Unassigned	(1,394,912)	50,085	(4,050)	(1,348,877)	(3,295,181)
Total Fund Balances	(1,208,863)	187,548	768,035	(253,280)	(395,287)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 3,143,276	\$ 1,542,686	\$ 1,139,989	\$ 5,825,951	\$ 7,956,227

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit J-2

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation 2018	Total Vocational Rehabilitation 2017
REVENUES					
Federal Funds	\$ 88,462,848	\$ 59,139,489	\$ 0	\$ 147,602,337	\$ 146,540,090
Local Funds	2,836,069			2,836,069	2,653,847
Sales and Services	443,767			443,767	635,712
Miscellaneous Revenues	2,322,844	983		2,323,827	3,380,814
Total Revenues	94,065,528	59,140,472	0	153,206,000	153,210,463
EXPENDITURES					
Salaries and Benefits	55,183,282	37,492,195		92,675,477	94,790,375
Contracted Personal Services	1,880,917	19,708,820		21,589,737	24,314,272
Supplies and Materials	646,746	277,338		924,084	774,461
Travel	1,101,353	41,166		1,142,519	1,007,720
Communication	1,052,945	347,158		1,400,103	1,518,980
Utilities	384,331			384,331	393,251
Data Processing Services	12,610			12,610	
Other Services	498,429	387,125		885,554	653,465
Other Fixed Charges	156,934	466,771		623,705	281,895
Capital Outlay	1,333,020	98,403	2,025,340	3,456,763	1,086,430
Grants, State Aid, and Subsidies	61,050,110	224,489		61,274,599	61,067,279
Expenditures to Other State Agencies (Note 12)	698,938			698,938	213
Other Expenditures	4,820,407	2,328,850		7,149,257	7,098,507
Total Expenditures	128,820,022	61,372,315	2,025,340	192,217,677	192,986,848
Excess of Revenues Over (Under) Expenditures	(34,754,494)	(2,231,843)	(2,025,340)	(39,011,677)	(39,776,385)
OTHER FINANCING SOURCES (USES)					
State Appropriations	37,120,411			37,120,411	36,232,523
Transfers In (Exhibit Q-1)	33,301	2,524,633	150,000	2,707,934	2,316,787
Transfers Out (Exhibit Q-1)	(678,818)			(678,818)	(1,037,019)
Other	4,157			4,157	12,694
Total Other Financing Sources	36,479,051	2,524,633	150,000	39,153,684	37,524,985
Net Change in Fund Balances	1,724,557	292,790	(1,875,340)	142,007	(2,251,400)
Fund Balances - Beginning of Year	(2,933,420)	(105,242)	2,643,375	(395,287)	1,856,113
Fund Balances - End of Year	<u>\$ (1,208,863)</u>	<u>\$ 187,548</u>	<u>\$ 768,035</u>	<u>\$ (253,280)</u>	<u>\$ (395,287)</u>

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Social Services
June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit K-1

	General Fund	
	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 3,083,642	\$ 3,637,557
Receivables:		
Accounts Receivable, Net (Note 4)	5,817,107	5,618,395
Intergovernmental Receivables	82,041,240	82,370,580
Due from Other Funds	61,685	159,768
Inventories	31,441	12,369
Total Assets	91,035,115	91,798,669
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	\$ 91,035,115	\$ 91,798,669
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 4,924,091	\$ 6,375,463
Intergovernmental Payables	84,717,264	85,327,139
Due to Other State Agencies and Funds	56,334	168,733
Due to State of North Carolina Component Units	68,622	1,659,249
Total Liabilities	89,766,311	93,530,584
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	305,003	260,790
FUND BALANCE		
Nonspendable Inventories	31,441	12,369
Restricted for Health and Human Services	1,494,001	1,356,102
Committed to Health and Human Services	1,344,079	1,705,365
Unassigned	(1,905,720)	(5,066,541)
Total Fund Balance	963,801	(1,992,705)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 91,035,115	\$ 91,798,669

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

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

Division of Social Services

For the Fiscal Year Ended June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit K-2

	General Fund	
	2018	2017
REVENUES		
Federal Funds	\$ 2,854,504,341	\$ 3,079,283,879
Local Funds	110,336,215	113,449,740
Fees, Licenses, and Fines	361,317	361,074
Revenues from Other State Agencies	19,515	20,565
Miscellaneous Revenues	12,129,357	10,392,792
Total Revenues	2,977,350,745	3,203,508,050
EXPENDITURES		
Salaries and Benefits	26,914,620	24,370,149
Contracted Personal Services	15,377,525	13,469,764
Supplies and Materials	152,553	104,877
Travel	863,138	865,252
Communication	713,443	642,327
Utilities	229	312
Data Processing Services	134,060	127,933
Other Services	5,544,082	5,498,567
Other Fixed Charges	217,557	156,159
Capital Outlay	239,501	287,994
Grants, State Aid, and Subsidies (Exhibit O-5)	3,115,356,903	3,355,689,515
Expenditures to Other State Agencies (Note 12)	433,176	262,410
Other Expenditures	684,581	561,285
Total Expenditures	3,166,631,368	3,402,036,544
Excess of Revenues Over (Under) Expenditures	(189,280,623)	(198,528,494)
OTHER FINANCING SOURCES (USES)		
State Appropriations	194,627,177	193,711,998
Transfers In (Exhibit Q-1)	9,424,946	9,409,165
Transfers Out (Exhibit Q-1)	(9,721,752)	(8,918,743)
Transfers from State Reserve Fund	1,228,115	125,933
Transfers to State Reserve Fund	(3,321,357)	(1,545,539)
Total Other Financing Sources	192,237,129	192,782,814
Net Change in Fund Balance	2,956,506	(5,745,680)
Fund Balance - Beginning of Year	(1,992,705)	3,752,975
Fund Balance - End of Year	\$ 963,801	\$ (1,992,705)

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Mental Health/Developmental Disabilities and Substance Abuse Services
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit L-1

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2018	Total Mental Health 2017
ASSETS					
Cash and Cash Equivalents	\$ 0	\$ 31,671,357	\$ 35,597,928	\$ 67,269,285	\$ 55,857,170
Receivables:					
Accounts Receivable, Net (Note 4)	31,441,450	374,296		31,815,746	29,236,095
Intergovernmental Receivables	8,433,936	6,927		8,440,863	7,638,108
Due from Other Funds	34,956	225		35,181	8,535
Inventories	5,117,807	27,940		5,145,747	5,622,162
Total Assets	45,028,149	32,080,745	35,597,928	112,706,822	98,362,070
DEFERRED OUTFLOWS OF RESOURCES					
Forward Funded State Aid	3,512,072	0	0	3,512,072	0
Total Assets and Deferred Outflows	<u>\$ 48,540,221</u>	<u>\$ 32,080,745</u>	<u>\$ 35,597,928</u>	<u>\$ 116,218,894</u>	<u>\$ 98,362,070</u>
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 13,840,840	\$ 143,653	\$ 9,913,252	\$ 23,897,745	\$ 42,333,123
Intergovernmental Payables	930,737			930,737	8,810,623
Medical Claims Payable	10,522,255			10,522,255	8,445,924
Due to Other State Agencies and Funds	3,942,453			3,942,453	3,438,101
Due to State of North Carolina Component Units	484,341			484,341	1,213,913
Other Liabilities		5,550		5,550	4,197
Total Liabilities	29,720,626	149,203	9,913,252	39,783,081	64,245,881
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	12,507,958	0	0	12,507,958	8,804,292
FUND BALANCES					
Nonspendable Inventories	5,117,807	27,940		5,145,747	5,622,162
Restricted for Health and Human Services	355,428	939,963		1,295,391	1,165,510
Committed to Health and Human Services	3,156,644	29,591,217	32,762,540	65,510,401	53,333,596
Assigned to Health and Human Services		1,392,528		1,392,528	1,210,675
Unassigned	(2,318,242)	(20,106)	(7,077,864)	(9,416,212)	(36,020,046)
Total Fund Balances	6,311,637	31,931,542	25,684,676	63,927,855	25,311,897
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 48,540,221</u>	<u>\$ 32,080,745</u>	<u>\$ 35,597,928</u>	<u>\$ 116,218,894</u>	<u>\$ 98,362,070</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 Mental Health/Developmental Disabilities and Substance Abuse Services
For the Fiscal Year Ended June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit L-2

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2018	Total Mental Health 2017
REVENUES					
Federal Funds	\$ 486,547,697	\$ 461,542	\$ 0	\$ 487,009,239	\$ 452,920,080
Local Funds	2,118,924	16,226		2,135,150	1,943,173
Sales and Services, Net (Note 10)	50,441,005	1,480,442		51,921,447	52,171,759
Fees, Licenses, and Fines (Note 11)	662,851	117		662,968	661,743
Revenues from Other State Agencies (Note 12)	3,010,729	1,000,000	14,680,245	18,690,974	33,389,502
Miscellaneous Revenues	3,016,188	431,988		3,448,176	14,402,451
Total Revenues	545,797,394	3,390,315	14,680,245	563,867,954	555,488,708
EXPENDITURES					
Salaries and Benefits	661,178,037	426,000		661,604,037	646,035,587
Contracted Personal Services	63,137,917	540,676		63,678,593	58,523,318
Supplies and Materials	41,133,848	1,172,077		42,305,925	42,074,085
Travel	495,030	9,431		504,461	575,567
Communication	2,516,646	35,624		2,552,270	2,236,292
Utilities	12,480,068	17,388		12,497,456	12,970,535
Data Processing Services	5,866			5,866	22
Other Services	4,054,637	196,241		4,250,878	2,756,138
Other Fixed Charges	4,842,561	42,206		4,884,767	5,019,290
Capital Outlay	5,754,120	211,899	23,012,600	28,978,619	39,268,405
Grants, State Aid, and Subsidies (Exhibit O-6)	435,678,342	441,208		436,119,550	387,300,387
Expenditures to Other State Agencies (Note 12)	180,000			180,000	7,575,719
Other Expenditures	12,604,960	141,387		12,746,347	14,925,724
Total Expenditures	1,244,062,032	3,234,137	23,012,600	1,270,308,769	1,219,261,069
Excess of Revenues Over (Under) Expenditures	(698,264,638)	156,178	(8,332,355)	(706,440,815)	(663,772,361)
OTHER FINANCING SOURCES (USES)					
State Appropriations	676,121,387		11,236,000	687,357,387	593,916,275
Transfers In (Exhibit Q-1)	231,450,370	10,104,354	250,000	241,804,724	242,504,661
Transfers Out (Exhibit Q-1)	(170,167,751)	(2,170,094)	(400,000)	(172,737,845)	(181,451,029)
Transfers from State Reserve Fund	51,699,493			51,699,493	59,779,636
Transfers to State Reserve Fund	(63,825,137)			(63,825,137)	(51,699,493)
Other	758,151			758,151	754,692
Total Other Financing Sources	726,036,513	7,934,260	11,086,000	745,056,773	663,804,742
Net Change in Fund Balances	27,771,875	8,090,438	2,753,645	38,615,958	32,381
Fund Balances - Beginning of Year	(21,460,238)	23,841,104	22,931,031	25,311,897	25,279,516
Fund Balances - End of Year	\$ 6,311,637	\$ 31,931,542	\$ 25,684,676	\$ 63,927,855	\$ 25,311,897

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Health Benefits
June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit M-1

	General Fund	
	2018	2017
ASSETS		
Receivables:		
Intergovernmental Receivables	\$ 535,067	\$ 134,091
Inventories	8,511	10,203
Total Assets	543,578	144,294
DEFERRED OUTFLOWS OF RESOURCES	0	0
Total Assets and Deferred Outflows	\$ 543,578	\$ 144,294
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 2,833,878	\$ 930,409
Due to Other State Agencies and Funds	11,326	82,850
Due to State of North Carolina Component Units	401	
Total Liabilities	2,845,605	1,013,259
DEFERRED INFLOWS OF RESOURCES	0	0
FUND BALANCE		
Nonspendable Inventories	8,511	10,203
Unassigned	(2,310,538)	(879,168)
Total Fund Balance	(2,302,027)	(868,965)
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 543,578	\$ 144,294

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

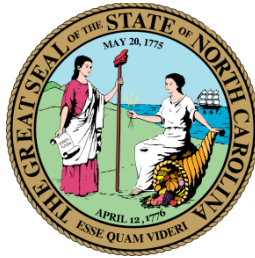
Division of Health Benefits

For the Fiscal Year Ended June 30, 2018 (With Comparative Amounts for June 30, 2017)

Exhibit M-2

	General Fund	
	2018	2017
REVENUES		
Federal Funds	\$ 17,277,170	\$ 134,091
Miscellaneous Revenues	161	41
Total Revenues	17,277,331	134,132
EXPENDITURES		
Salaries and Benefits	2,605,199	1,777,001
Contracted Personal Services	20,751,381	7,087,917
Supplies and Materials	8,889	15,945
Travel	28,560	16,731
Communication	17,142	1,559
Data Processing Services	787	
Other Services	219,767	64,377
Other Fixed Charges	7,858	5,020
Capital Outlay	200,839	295,820
Other Expenditures	105	10,490
Total Expenditures	23,840,527	9,274,860
Excess of Revenues Over (Under) Expenditures	(6,563,196)	(9,140,728)
OTHER FINANCING SOURCES (USES)		
State Appropriations	9,722,864	9,686,546
Transfers from State Reserve Fund	5,727,033	5,103,901
Transfers to State Reserve Fund	(10,319,763)	(5,727,033)
Total Other Financing Sources	5,130,134	9,063,414
Net Change in Fund Balance	(1,433,062)	(77,314)
Fund Balance - Beginning of Year	(868,965)	(791,651)
Fund Balance - End of Year	<u>\$ (2,302,027)</u>	<u>\$ (868,965)</u>

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



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. In addition, the division serves as the repository for any excess federal funds held by the Department that are due back to the federal government at the end of the fiscal year.

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 and workers' compensation, which are recognized as expenditures when payment is due. Pension and other postemployment benefit 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 has forward funded state aid that qualifies 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 North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina 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

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, 2018, the Balance Sheet reported cash and cash equivalents of \$305,014,212, 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 1.4 years as of June 30, 2018. 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, 2018. 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, cash and cash equivalents valued at \$305,014,212 were held in the STIF. 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. Pool investments are measured at fair value in accordance with GASB 72. The Department's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - RECEIVABLES

Accounts receivable at June 30, 2018 were as follows:

	Gross Receivable	Less Allowance for Doubtful Accounts	Net Receivable
Accounts Receivable:			
Central Administration	\$ 100,432	\$ 70,602	\$ 29,830
Medical Assistance	172,311,704	86,155,669	86,156,035
Child Development	994,753	14,286	980,467
Health Service Regulation	2,130,210	1,571,100	559,110
Public Health	5,913,840	141,759	5,772,081
Blind/Deaf Services	257,040	1,148	255,892
Vocational Rehabilitation	181,220	19,826	161,394
Social Services	49,050,042	43,232,935	5,817,107
Mental Health	263,779,364	231,963,618	31,815,746
Total Accounts Receivable	\$ 494,718,605	\$ 363,170,943	\$ 131,547,662

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, 2018 were as follows:

	Amount
Intergovernmental Receivables:	
Due from Federal Agencies:	
Department of Health and Human Services	\$ 834,146,256
Department of Agriculture	24,634,735
Department of Education	3,572,381
Social Security Administration	1,272,051
Other	909,715
Due from County and Local Agencies	1,358,518
Total Intergovernmental Receivables	\$ 865,893,656

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 that are incurred as a result of the construction.

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

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

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery 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, 2018 is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land	\$ 1,123,524	\$ 0	\$ 17,972	\$ 1,105,552
Construction in Progress	147,564,218	21,424,368	7,182,977	161,805,609
Computer Software in Development	467,180,426	105,413,675	38,139,322	534,454,779
Total Capital Assets, Nondepreciable	615,868,168	126,838,043	45,340,271	697,365,940
Capital Assets, Depreciable:				
Buildings	607,757,977	3,389,296	1,048,378	610,098,895
Machinery and Equipment	149,088,853	7,416,296	3,451,256	153,053,893
General Infrastructure	84,177,797	3,268,250	42,555	87,403,492
Computer Software	253,711,526	37,872,159		291,583,685
Total Capital Assets, Depreciable	1,094,736,153	51,946,001	4,542,189	1,142,139,965
Less Accumulated Depreciation/Amortization for:				
Buildings	156,034,062	10,229,676	637,302	165,626,436
Machinery and Equipment	59,009,094	7,488,178	2,742,684	63,754,588
General Infrastructure	27,833,117	2,292,830	34,517	30,091,430
Computer Software	35,993,469	10,148,461		46,141,930
Total Accumulated Depreciation/Amortization	278,869,742	30,159,145	3,414,503	305,614,384
Total Capital Assets, Depreciable, Net	815,866,411	21,786,856	1,127,686	836,525,581
Capital Assets, Net	\$ 1,431,734,579	\$ 148,624,899	\$ 46,467,957	\$ 1,533,891,521

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, 2018 were as follows:

	Amount
Intergovernmental Payables:	
Due to Federal Agencies:	
Department of Health and Human Services	\$ 197,660,570
Department of Agriculture	3,783,441
Department of Education	251,385
Other	28,642
Due to Local Governments	113,762,703
Total Intergovernmental Payables	\$ 315,486,741

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 68%, 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, net other postemployment benefits (OPEB) liability, workers' compensation, 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 2017 *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, deferred outflows of resources, and deferred inflows of resources related to pensions.
- B. Net Other Postemployment Benefits (OPEB) Liability** - The net OPEB liability represents the Department's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the Department's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the Department's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.
- C. 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, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Net Pension Liability	\$ 438,335,989	\$ 0	\$ 58,022,363	\$ 380,313,626	\$ 0
Net Other Postemployment Benefits Liability	1,734,210,797		372,913,981	1,361,296,816	
Compensated Absences	89,459,499	56,825,569	55,914,450	90,370,618	8,422,540
Workers' Compensation	152,486,688	89,700	19,713,125	132,863,263	20,000,000
Total Long-Term Liabilities	\$ 2,414,492,973	\$ 56,915,269	\$ 506,563,919	\$ 1,964,844,323	\$ 28,422,540

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

Additional information regarding the net other postemployment benefits liability is included in Note 15.

Additional information regarding workers' compensation is included in Note 16.

The July 1, 2017 net other postemployment benefits liability was restated in accordance with the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The July 1, 2017 workers' compensation liability was restated to record the Department's obligations.

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, 2018:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 13,587,955
2020	9,809,930
2021	7,435,643
2022	5,014,922
2023	3,773,105
2024 - Beyond	5,599,549
Total Minimum Lease Payments	\$ 45,221,104

Rental expense for all operating leases during the year was \$18,176,944.

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.

NOTES TO THE FINANCIAL STATEMENTS

A summary of the Division of Mental Health's net patient service revenue within the general fund (presented as sales and services on Exhibit L-2) for the year ended June 30, 2018 is presented as follows:

	Amount
Gross Patient Service Revenue	\$ 806,391,003
Deduct:	
Contractual Adjustments:	
Contractual Allowances	24,208,935
Disproportionate Share Hospital	(159,770,848)
Bad Debt	303,337,296
Third Party Reimbursement Programs:	
Federal Funds - State Medicaid Program	184,964,403
Federal Funds - Managed Care Organizations	212,700,454
Transfers - Non-Federal Share from DMA	190,509,758
Net Patient Service Revenue	\$ 50,441,005

NOTE 11 - FEES, LICENSES, AND FINES REVENUES

Fees, licenses, and fines for the fiscal year ended June 30, 2018 were as follows:

	Medical Assistance	Child Development	Health Service Regulation	Public Health	Blind/Deaf Services	Mental Health	Other Divisions	Total
Business License Fees	\$ 0	\$ 1,117,859	\$ 8,658,335	\$ 4,863,972	\$ 0	\$ 662,500	\$ 0	\$ 15,302,666
Non-Business Permit License Fees				2,467,869			361,317	2,829,186
Certification Fees			127,841	446,168				574,009
Inspection and Examination Fees				2,807,880				2,807,880
Fines, Penalties, and Assessment Fees	766,267	13,200	6,069,483	196,015		86		7,045,051
Registration Fees		91,550	119,039	6,070		3	27,407	244,069
Other Licenses, Fees, and Permits		798,237	4,439,024	5,619,764	2,807,414	2,160		13,666,599
Cost Recoveries	120,937,923							120,937,923
Intermediate Care Facility Assessments	29,118,428							29,118,428
Provider Enrollment Fees	3,542,337							3,542,337
Miscellaneous		51,219	6,058				779,076	836,353
Civil Fines and Penalties - Transfers		(9,502)	(487,410)	(140,888)		(1,781)		(639,581)
Total Fees, Licenses, and Fines	\$ 154,364,955	\$ 2,062,563	\$ 18,932,370	\$ 16,266,850	\$ 2,807,414	\$ 662,968	\$ 1,167,800	\$ 196,264,920

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, 2018 were as follows:

Revenues from Other State Agencies

Other State Agencies	Medical Assistance	Child Development	Public Health	Blind/Deaf Services	Mental Health	Other Divisions	Total
Office of State Budget and Management	\$ 0	\$ 15,495	\$ 212,724	\$ 10,235,424	\$ 14,680,245	\$ 56,580	\$ 25,200,468
Department of Public Safety						167,956	167,956
Department of Transportation			569,753			19,515	589,268
Administrative Office of the Courts			674,395				674,395
Department of Information Technology	2,750,000					300,000	3,050,000
Department of Public Instruction				468	3,010,729		3,011,197
NC Education Lottery		78,252,110			1,000,000		79,252,110
Total Revenues	\$ 2,750,000	\$ 78,267,605	\$ 1,456,872	\$ 10,235,892	\$ 18,690,974	\$ 544,051	\$ 111,945,394

Expenditures to Other State Agencies

Other State Agencies	Central Administration	Medical Assistance	Health Service Regulation	Vocational Rehabilitation	Social Services	Mental Health	Total
State General Fund	\$ 0	\$ 160,960,140	\$ 2,627,631	\$ 0	\$ 0	\$ 0	\$ 163,587,771
Department of Public Instruction		12,818,015					12,818,015
Department of Information Technology	4,450,000	745,200					5,195,200
Department of Commerce					433,176	180,000	613,176
Department of Justice	300,000						300,000
Office of State Budget and Management				698,938			698,938
Total Expenditures	\$ 4,750,000	\$ 174,523,355	\$ 2,627,631	\$ 698,938	\$ 433,176	\$ 180,000	\$ 183,213,100

NOTE 13 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2018 consisted of the following:

	Transfers In			
	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Transfers Out				
General Fund	\$ 435,488,687	\$ 12,524,633	\$ 0	\$ 448,013,320
Special Revenue Fund	14,800,367	109,590		14,909,957
Capital Projects Fund			400,000	400,000
Total	\$ 450,289,054	\$ 12,634,223	\$ 400,000	\$ 463,323,277

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 \$435,488,687 for General Fund, \$109,590 for Special Revenue Fund, and \$400,000 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, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$47,771,913 and the Department's contributions were \$85,830,204 for the year ended June 30, 2018.

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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the Department's proportionate share of the collective net pension liability was \$380,313,626. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the Department's proportion was 4.79%, which was an increase of 0.03 from its proportion measured as of June 30, 2016, which was 4.76%.

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	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense

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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment 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, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
\$ 782,842,871	\$ 380,313,626	\$ 43,045,428

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the Department's proportionate share of the collective pension expense was \$106,426,171. At June 30, 2018, 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	\$ 8,244,496	\$ 12,442,045
Changes of Assumptions	60,083,817	
Net Difference Between Projected and Actual Earnings on Plan Investments	51,469,334	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	9,047,400	157,091
Contributions Subsequent to the Measurement Date	85,830,204	
Total	<u>\$ 214,675,251</u>	<u>\$ 12,599,136</u>

The Department's deferred outflows of resources related to contributions subsequent to the measurement date of \$85,830,204 will represent a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts of deferred outflows of resources and deferred inflows of resources related to pensions will be included in the pension expense 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
2019	\$ 24,751,778
2020	75,151,128
2021	36,941,591
2022	(20,598,586)
Total	<u>\$ 116,245,911</u>

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefit (OPEB) 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 OPEB liability, discussed in Note 8 to the financial statements, or asset is not reported on the face of the fund financial statements.

The Department participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' 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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the OPEB plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools,

and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Department's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The Department's contributions to the RHBF were \$48,170,013 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last

payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The Department's contributions to DIPNC were \$1,114,678 for the year ended June 30, 2018.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the Department's proportionate share of the collective net OPEB liability for RHBF was \$1,361,296,816. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The Department's proportion of the net OPEB 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, 2017, the Department's proportion was 4.15%, which was an increase of 0.16 from its proportion measured as of June 30, 2016, which was 3.99%.

Net OPEB Asset: At June 30, 2018, the Department's proportionate share of the collective net OPEB asset for DIPNC was \$2,553,544. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The Department's proportion of the net OPEB asset 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, 2017, the Department's proportion was 4.18%, which was a decrease of 0.01 from its proportion measured as of June 30, 2016, which was 4.19%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not Applicable

The OPEB plans currently use 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 studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between

the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Department's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)				
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)	
RHBF	\$ 1,623,949,580	\$ 1,361,296,816	\$ 1,152,976,898	
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)	
DIPNC	\$ (2,170,889)	\$ (2,553,544)	\$ (2,937,078)	

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	\$ 1,112,054,594	\$ 1,361,296,816	\$ 1,692,572,882
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the Department's proportionate share of the collective OPEB expense was \$80,356,531 for RHBF and \$1,443,159 for DIPNC. At June 30, 2018, the Department's proportionate share of the collective deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources:

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0	\$ 700,136	\$ 700,136
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		559,716	559,716
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	64,328,090	259,668	64,587,758
Contributions Subsequent to the Measurement Date	48,170,013	1,114,678	49,284,691
Total	\$ 112,498,103	\$ 2,634,198	\$ 115,132,301

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 97,607,486	\$ 0	\$ 97,607,486
Changes of Assumptions	374,894,928		374,894,928
Net Difference Between Projected and Actual Earnings on Plan Investments	505,917		505,917
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Total	\$ 473,008,331	\$ 0	\$ 473,008,331

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will represent a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts of deferred outflows of resources and deferred inflows of resources related to OPEB will be included in the OPEB expense 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 OPEB Expense:

<u>Year Ended June 30:</u>	RHBF	DIPNC
2019	\$ (81,761,344)	\$ 459,910
2020	(81,761,344)	459,910
2021	(81,761,344)	459,785
2022	(81,761,344)	139,915
2023	(81,634,865)	
Total	\$ (408,680,241)	\$ 1,519,520

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 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 is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Department employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Department up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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 for employees paid in whole or in part from state funds. 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, 2018, 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. As of June 30, 2018, the Department has not received a demand for recovery from CMS.

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. As of June 30, 2018, the Department has not received a demand for recovery from CMS.

An audit conducted by the United States Department of Health and Human Services OIG concluded that the Department did not comply with federal and state requirements when making Medicaid claims for school-based Medicaid administrative costs. Based on the audit, the OIG recommended that the Department refund \$53.8 million to the federal government for noncompliant claims. The Department disagrees with the findings and recommendation. Once a final determination of the liability is made, the amount will be paid to CMS. As of June 30, 2018, the Department has not received a demand for recovery from 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, 2018, the Department had commitments of \$16,970,080 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 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 (CLHF) 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 CLHF 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 CLHF in 2016-17. Senate Bills 257 [Session Law 2017-57] and 99 [Session Law 2018-5] provided funds of \$4.2 million and \$3.96 million, respectively, transferred from the Department to the CLHF.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 19 - FUND BALANCE RESTATEMENT

As of July 1, 2017, fund balances as previously reported were restated as follows:

	Department	Public Health
July 1, 2017 Fund Balances as Previously Reported	\$ (260,447,459)	\$ 8,102,676
Restatement:		
To Correct Prior Period Accounts Receivable Error for the Division of Public Health	<u>4,872,202</u>	<u>4,872,202</u>
July 1, 2017 Fund Balances as Restated	<u>\$ (255,575,257)</u>	<u>\$ 12,974,878</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, 2018

Exhibit N-1

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal Grants	\$ 12,533,778,615	\$ 12,731,782,279	\$ 12,257,886,149	\$ (473,896,130)
Local Grants	755,035,611	832,272,166	789,713,409	(42,558,757)
Provider Match	278,327,529	361,836,806	400,249,659	38,412,853
Local Match and Program Income	10,019,132	10,462,909	9,805,095	(657,814)
Sales, Services, and Rentals	82,176,562	82,210,744	52,680,874	(29,529,870)
Fees, Licenses, and Fines	705,513,046	761,490,006	855,493,625	94,003,619
Contributions and Donations	100,375	100,375	129,225	28,850
Investment Income		(2,219)	315,952	318,171
Miscellaneous	123,072,936	134,386,077	135,126,106	740,029
Total Revenues	14,488,023,806	14,914,539,143	14,501,400,094	(413,139,049)
EXPENDITURES				
Salaries and Benefits	1,185,405,261	1,141,969,240	1,066,803,053	75,166,187
Purchased Services	495,471,131	630,594,158	523,068,674	107,525,484
Supplies	69,404,971	62,340,908	52,972,014	9,368,894
Property, Plant, and Equipment	18,424,351	30,453,123	22,644,581	7,808,542
Other Expenditures and Adjustments	21,990,824	35,837,739	33,607,427	2,230,312
Aid and Public Assistance	17,949,377,590	18,292,787,232	17,979,000,533	313,786,699
Reserves	66,434,079	34,329,703	25,000	34,304,703
Total Expenditures	19,806,508,207	20,228,312,103	19,678,121,282	550,190,821
Excess of Revenues Over (Under) Expenditures	(5,318,484,401)	(5,313,772,960)	(5,176,721,188)	137,051,772
OTHER FINANCING SOURCES (USES)				
State Appropriations	5,252,215,552	5,252,215,552	5,175,353,036	(76,862,516)
Transfers from Other Departments or Funds	760,537,920	955,984,166	908,881,674	(47,102,492)
Transfers to Other Departments or Funds	(722,003,005)	(929,068,128)	(896,007,322)	33,060,806
Total Other Financing Sources	5,290,750,467	5,279,131,590	5,188,227,388	(90,904,202)
Net Change in Fund Balance	(27,733,934)	(34,641,370)	11,506,200	46,147,570
Fund Balance - July 1, 2017	91,540,394	91,540,394	91,540,394	
Fund Balance - June 30, 2018	<u>\$ 63,806,460</u>	<u>\$ 56,899,024</u>	<u>\$ 103,046,594</u>	<u>\$ 46,147,570</u>

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 103,046,594
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	997,129,864
Payables	(1,411,272,690)
Deferred Inflows	(14,042,002)
Total Basis Differences	(428,184,828)
Other Adjustments:	
Cash	112,086,969
Inventories	9,199,556
Timing Differences:	
Forward Funded State Aid	3,960,972
Fund Balance (GAAP Basis) June 30, 2018	<u>\$ (199,890,737)</u>

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

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
For the Fiscal Year Ended June 30, 2018

Exhibit N-2

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 105,289,209	\$ 119,579,530	\$ 88,805,967	\$ (30,773,563)
Title IV-D / Child Support	5,529,813	5,836,966	5,168,349	(668,617)
Other Federal Grants	71,529,290	68,097,044	49,051,991	(19,045,053)
Local Grants	722,285	839,295	543,310	(295,985)
Sales, Services, and Rentals	13,875	13,875	18,325	4,450
Miscellaneous Revenues	1,858,184	2,839,450	3,010,596	171,146
Total Revenues	184,942,656	197,206,160	146,598,538	(50,607,622)
EXPENDITURES				
Salaries and Benefits	92,699,108	85,290,844	74,209,725	11,081,119
Purchased Services	176,616,884	202,348,920	155,292,709	47,056,211
Supplies	1,432,747	1,344,167	1,118,226	225,941
Property, Plant, and Equipment	6,682,846	11,682,051	10,100,374	1,581,677
Other Expenditures and Adjustments	1,500,711	2,422,375	2,369,518	52,857
Aid and Public Assistance	34,536,304	43,702,809	40,047,980	3,654,829
Reserves	32,807,906	14,620,679		14,620,679
Total Expenditures	346,276,506	361,411,845	283,138,532	78,273,313
Excess of Revenues Over (Under) Expenditures	(161,333,850)	(164,205,685)	(136,539,994)	27,665,691
OTHER FINANCING SOURCES (USES)				
State Appropriations	120,792,967	120,871,885	120,298,029	(573,856)
Transfers from Other Departments or Funds	43,871,559	59,279,826	55,878,169	(3,401,657)
Transfers to Other Department or Funds	(30,097,221)	(51,487,674)	(50,540,161)	947,513
Total Other Financing Sources	134,567,305	128,664,037	125,636,037	(3,028,000)
Net Change in Fund Balance	(26,766,545)	(35,541,648)	(10,903,957)	24,637,691
Fund Balance - July 1, 2017	33,670,196	33,670,196	33,670,196	
Fund Balance - June 30, 2018	\$ 6,903,651	\$ (1,871,452)	\$ 22,766,239	\$ 24,637,691

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 22,766,239
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	10,959,442
Payables	(125,924,220)
Deferred Inflows	(669)
Total Basis Differences	<u>(114,965,447)</u>
Other Adjustments:	
Cash	112,079,717
Inventories	191,390
Timing Differences:	
Forward Funded State Aid	<u>201,142</u>
Fund Balance (GAAP Basis) June 30, 2018	<u>\$ 20,273,041</u>

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

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
For the Fiscal Year Ended June 30, 2018

Exhibit N-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Program	\$ 8,993,783,328	\$ 9,055,996,178	\$ 8,878,510,395	\$ (177,485,783)
Medical Assistance Administration and Training	115,808,355	107,298,745	105,718,318	(1,580,427)
CHIP	367,081,979	358,903,286	451,412,736	92,509,450
Other Federal Grants	61,851,234	76,934,034	26,648,784	(50,285,250)
Provider Match	278,327,529	361,836,806	400,249,659	38,412,853
Sales, Services, and Rentals	14,425	14,425	14,863	438
Fees, Licenses, and Fines	674,075,751	729,509,145	816,982,904	87,473,759
Investment Income		(2,219)	315,952	318,171
Miscellaneous	18,569,922	15,192,836	29,011,347	13,818,511
Total Revenues	10,509,512,523	10,705,683,236	10,708,864,958	3,181,722
EXPENDITURES				
Salaries and Benefits	36,279,552	31,873,616	31,538,811	334,805
Purchased Services	123,986,668	142,711,781	140,930,162	1,781,619
Supplies	196,975	119,637	118,090	1,547
Property, Plant, and Equipment	234,459	241,476	234,871	6,605
Other Expenditures and Adjustments	1,020,989	1,070,757	1,020,685	50,072
Aid and Public Assistance	14,127,684,021	14,314,537,273	14,257,481,622	57,055,651
Reserves	22,085	22,085		22,085
Total Expenditures	14,289,424,749	14,490,576,625	14,431,324,241	59,252,384
Excess of Revenues Over (Under) Expenditures	(3,779,912,226)	(3,784,893,389)	(3,722,459,283)	62,434,106
OTHER FINANCING SOURCES (USES)				
State Appropriations	3,699,604,666	3,699,563,876	3,654,323,270	(45,240,606)
Transfers from Other Departments or Funds	532,498,361	670,635,406	635,528,537	(35,106,869)
Transfers to Other Departments or Funds	(452,819,801)	(582,542,272)	(550,383,081)	32,159,191
Total Other Financing Sources	3,779,283,226	3,787,657,010	3,739,468,726	(48,188,284)
Net Change in Fund Balance	(629,000)	2,763,621	17,009,443	14,245,822
Fund Balance - July 1, 2017	26,719,439	26,719,439	26,719,439	
Fund Balance - June 30, 2018	\$ 26,090,439	\$ 29,483,060	\$ 43,728,882	\$ 14,245,822

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.

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 43,728,882
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	790,182,188
Payables	(1,071,344,769)
Deferred Inflows	(19)
Total Basis Differences	(281,162,600)
Other Adjustments:	
Inventories	8,953
Timing Differences:	
Forward Funded State Aid	206,349
Fund Balance (GAAP Basis) June 30, 2018	\$ (237,218,416)

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

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, 2018

Exhibit N-4

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child Care Development Funds	\$ 155,153,106	\$ 155,271,166	\$ 128,265,246	\$ (27,005,920)
TANF	163,675,356	163,282,936	163,420,458	137,522
Other Federal Grants	56,753,512	57,383,824	57,158,447	(225,377)
Fees, Licenses, and Fines	2,064,639	2,101,636	2,000,153	(101,483)
Miscellaneous Revenues	264,397	442,634	509,694	67,060
Total Revenues	377,911,010	378,482,196	351,353,998	(27,128,198)
EXPENDITURES				
Salaries and Benefits	22,506,101	21,815,000	19,485,102	2,329,898
Purchased Services	5,736,776	8,138,292	7,408,310	729,982
Supplies	99,969	135,033	134,979	54
Property, Plant, and Equipment	41,555	216,499	203,348	13,151
Other Expenditures and Adjustments	380,462	534,742	534,190	552
Aid and Public Assistance	675,009,228	668,057,097	657,686,997	10,370,100
Reserves	16,715,623	14,998,911		14,998,911
Total Expenditures	720,489,714	713,895,574	685,452,926	28,442,648
Excess of Revenues Over (Under) Expenditures	(342,578,704)	(335,413,378)	(334,098,928)	1,314,450
OTHER FINANCING SOURCES (USES)				
State Appropriations	268,087,996	268,087,996	266,457,423	(1,630,573)
Transfers from Other Departments or Funds	78,252,110	78,252,110	78,252,110	
Transfers to Other Departments or Funds	(3,761,402)	(10,926,728)	(10,610,605)	316,123
Total Other Financing Sources	342,578,704	335,413,378	334,098,928	(1,314,450)
Net Change in Fund Balance	0	0	0	0
Fund Balance - July 1, 2017	0	0	0	
Fund Balance - June 30, 2018	\$ 0	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	30,088,272
Payables	(40,337,281)
Deferred Inflows	(4,113)
Total Basis Differences	(10,253,122)
Other Adjustments:	
Inventories	12,598
Fund Balance (GAAP Basis) June 30, 2018	\$ (10,240,524)

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

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
For the Fiscal Year Ended June 30, 2018

Exhibit N-5

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medicare	\$ 10,179,462	\$ 9,910,311	\$ 8,845,341	\$ (1,064,970)
Health Standard Quality Bureau	6,479,442	6,276,836	6,187,539	(89,297)
Medical Assistance Administration and Training	6,536,277	6,397,668	5,535,477	(862,191)
HRSA - Bioterrorism Hospital	6,763,683	6,703,530	5,728,522	(975,008)
Other Federal Grants	6,194,594	6,202,541	1,679,611	(4,522,930)
Local Grants	1,458,582	1,603,356	1,198,429	(404,927)
Sales, Services, and Rentals	478,205	478,705	515,128	36,423
Fees, Licenses, and Fines	12,341,028	12,886,834	19,413,780	6,526,946
Miscellaneous Revenues	1,280,304	1,540,902	1,558,111	17,209
	<u>51,711,577</u>	<u>52,000,683</u>	<u>50,661,938</u>	<u>(1,338,745)</u>
EXPENDITURES				
Salaries and Benefits	48,779,964	46,542,829	43,351,142	3,191,687
Purchased Services	6,659,054	9,511,510	7,402,289	2,109,221
Supplies	308,617	442,557	350,564	91,993
Property, Plant, and Equipment	737,246	910,110	732,705	177,405
Other Expenditures and Adjustments	1,386,462	1,543,400	1,526,196	17,204
Aid and Public Assistance	10,238,665	9,880,326	5,167,854	4,712,472
Reserves	1,271,204	611,315		611,315
	<u>69,381,212</u>	<u>69,442,047</u>	<u>58,530,750</u>	<u>10,911,297</u>
Excess of Revenues Over (Under) Expenditures	<u>(17,669,635)</u>	<u>(17,441,364)</u>	<u>(7,868,812)</u>	<u>9,572,552</u>
OTHER FINANCING SOURCES (USES)				
State Appropriations	18,718,366	18,716,060	17,906,176	(809,884)
Transfers from Other Departments or Funds	1,908,560	2,843,845	2,886,458	42,613
Transfers to Other Departments or Funds	<u>(3,901,498)</u>	<u>(5,647,559)</u>	<u>(7,122,771)</u>	<u>(1,475,212)</u>
	<u>16,725,428</u>	<u>15,912,346</u>	<u>13,669,863</u>	<u>(2,242,483)</u>
Net Change in Fund Balance	(944,207)	(1,529,018)	5,801,051	7,330,069
Fund Balance - July 1, 2017	<u>27,165,666</u>	<u>27,165,666</u>	<u>27,165,666</u>	
Fund Balance - June 30, 2018	\$ 26,221,459	\$ 25,636,648	\$ 32,966,717	\$ 7,330,069

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 32,966,717
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	2,693,982
Payables	(2,545,641)
Deferred Inflows	(539,801)
Total Basis Differences	(391,460)
Other Adjustments:	
Inventories	6,974
Fund Balance (GAAP Basis) June 30, 2018	\$ 32,582,231

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

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, 2018

Exhibit N-6

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child/Adult Day Care	\$ 126,262,044	\$ 127,562,687	\$ 103,833,840	\$ (23,728,847)
HIV Care Grant	56,048,279	71,441,738	47,893,914	(23,547,824)
WIC	235,619,000	238,855,779	170,979,073	(67,876,706)
Medicaid	49,592,230	48,172,493	43,004,749	(5,167,744)
Other Federal Grants	132,062,619	155,280,258	107,404,093	(47,876,165)
Local Grants	24,710,994	29,219,254	25,744,164	(3,475,090)
Sales, Services, and Rentals	2,353,130	2,353,130	1,403,419	(949,711)
Fees, Licenses, and Fines	15,792,116	15,814,116	16,046,373	232,257
Miscellaneous Revenues	80,691,288	91,257,557	80,353,065	(10,904,492)
Total Revenues	723,131,700	779,957,012	596,662,690	(183,294,322)
EXPENDITURES				
Salaries and Benefits	147,317,439	146,481,603	127,538,933	18,942,670
Purchased Services	74,539,183	100,151,032	59,814,318	40,336,714
Supplies	16,733,292	15,084,045	8,594,475	6,489,570
Property, Plant, and Equipment	4,570,690	9,583,996	4,181,082	5,402,914
Other Expenditures and Adjustments	5,492,979	8,461,985	7,167,719	1,294,266
Aid and Public Assistance	626,176,484	649,599,423	528,187,505	121,411,918
Reserves	7,794,063	2,714,423		2,714,423
Total Expenditures	882,624,130	932,076,507	735,484,032	196,592,475
Excess of Revenues Over (Under) Expenditures	(159,492,430)	(152,119,495)	(138,821,342)	13,298,153
OTHER FINANCING SOURCES (USES)				
State Appropriations	157,214,360	157,214,360	144,363,837	(12,850,523)
Transfers from Other Departments or Funds	5,208,076	6,002,786	5,264,017	(738,769)
Transfers to Other Departments or Funds	(2,930,006)	(11,097,651)	(10,711,517)	386,134
Total Other Financing Sources	159,492,430	152,119,495	138,916,337	(13,203,158)
Net Change in Fund Balance	0	0	94,995	94,995
Fund Balance - July 1, 2017	349,864	349,864	349,864	
Fund Balance - June 30, 2018	\$ 349,864	\$ 349,864	\$ 444,859	\$ 94,995

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 444,859
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	27,474,641
Payables	(35,978,869)
Deferred Inflows	(684,342)
Total Basis Differences	(9,188,570)
Other Adjustments:	
Inventories	3,693,884
Fund Balance (GAAP Basis) June 30, 2018	<u>\$ (5,049,827)</u>

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

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, 2018

Exhibit N-7

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Title III Grants	\$ 28,590,479	\$ 34,292,754	\$ 29,536,002	\$ (4,756,752)
Nutrition Services Incentive Program	3,317,051	3,336,280	3,480,872	144,592
Family Caregiver Support	4,700,135	5,361,612	4,395,589	(966,023)
Other Federal Grants	15,840,068	18,643,010	16,015,535	(2,627,475)
Local Match and Program Income	10,019,132	10,462,909	9,805,095	(657,814)
Sales, Services, and Rentals	100	100		(100)
Fees, Licenses, and Fines	45,000	45,000	26,657	(18,343)
Contributions and Donations	90,000	90,000	85,600	(4,400)
Miscellaneous Revenues	44,929	150,072	150,582	510
Total Revenues	62,646,894	72,381,737	63,495,932	(8,885,805)
EXPENDITURES				
Salaries and Benefits	6,280,624	6,203,815	5,452,529	751,286
Purchased Services	2,205,035	2,750,433	2,007,718	742,715
Supplies	28,234	36,992	30,491	6,501
Property, Plant, and Equipment	49,719	54,464	34,120	20,344
Other Expenditures and Adjustments	58,647	169,607	167,800	1,807
Aid and Public Assistance	100,575,617	109,627,089	101,733,369	7,893,720
Reserves	83,364	56,158		56,158
Total Expenditures	109,281,240	118,898,558	109,426,027	9,472,531
Excess of Revenues Over (Under) Expenditures	(46,634,346)	(46,516,821)	(45,930,095)	586,726
OTHER FINANCING SOURCES (USES)				
State Appropriations	46,922,651	46,891,655	46,326,140	(565,515)
Transfers from Other Departments or Funds	41,409	404,880	382,857	(22,023)
Transfers to Other Departments or Funds	(329,714)	(779,714)	(778,902)	812
Total Other Financing Sources	46,634,346	46,516,821	45,930,095	(586,726)
Net Change in Fund Balance	0	0	0	0
Fund Balance - July 1, 2017	0	0	0	
Fund Balance - June 30, 2018	\$ 0	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	3,746,073
Payables	(7,444,405)
Total Basis Differences	(3,698,332)
Other Adjustments:	
Inventories	4,397
Timing Differences:	
Forward Funded State Aid	41,409
Fund Balance (GAAP Basis) June 30, 2018	\$ (3,652,526)

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

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, 2018

Exhibit N-8

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehab Services	\$ 14,659,996	\$ 14,793,541	\$ 9,931,352	\$ (4,862,189)
Other Federal Grants	4,660,609	4,719,133	5,028,118	308,985
Local Grants	1,170,493	1,039,960	789,726	(250,234)
Fees, Licenses, and Fines	61,237			
Miscellaneous Revenues	386,852	722,438	678,110	(44,328)
Total Revenues	20,939,187	21,275,072	16,427,306	(4,847,766)
EXPENDITURES				
Salaries and Benefits	22,610,788	22,690,934	19,811,306	2,879,628
Purchased Services	8,452,851	8,590,257	5,808,610	2,781,647
Supplies	358,636	322,051	251,819	70,232
Property, Plant, and Equipment	229,153	333,650	283,058	50,592
Other Expenditures and Adjustments	554,313	724,581	627,533	97,048
Aid and Public Assistance	12,776,556	12,709,042	9,624,427	3,084,615
Reserves	274,961	348,079		348,079
Total Expenditures	45,257,258	45,718,594	36,406,753	9,311,841
Excess of Revenues Over (Under) Expenditures	(24,318,071)	(24,443,522)	(19,979,447)	4,464,075
OTHER FINANCING SOURCES (USES)				
State Appropriations	8,423,425	8,423,425	8,086,322	(337,103)
Transfers from Other Departments or Funds	16,191,976	16,396,489	12,269,517	(4,126,972)
Transfers to Other Departments or Funds	(297,330)	(381,316)	(381,316)	
Total Other Financing Sources	24,318,071	24,438,598	19,974,523	(4,464,075)
Net Change in Fund Balance	0	(4,924)	(4,924)	0
Fund Balance - July 1, 2017	4,924	4,924	4,924	
Fund Balance - June 30, 2018	\$ 4,924	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	662,598
Payables	(1,012,921)
Total Basis Differences	(350,323)
Other Adjustments:	
Inventories	1,059
Fund Balance (GAAP Basis) June 30, 2018	\$ (349,264)

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

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, 2018

Exhibit N-9

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehabilitation Services	\$ 96,704,384	\$ 97,073,294	\$ 85,197,084	\$ (11,876,210)
Other Federal Grants	3,528,916	4,768,473	3,141,972	(1,626,501)
Local Grants	2,831,134	2,902,752	2,861,785	(40,967)
Sales, Services, and Rentals	435,678	469,360	448,062	(21,298)
Miscellaneous Revenues	4,298,276	4,872,566	3,836,998	(1,035,568)
Total Revenues	107,798,388	110,086,445	95,485,901	(14,600,544)
EXPENDITURES				
Salaries and Benefits	62,017,932	60,633,571	54,667,631	5,965,940
Purchased Services	9,869,173	10,791,142	10,004,021	787,121
Supplies	817,297	787,835	765,945	21,890
Property, Plant, and Equipment	453,085	1,466,093	1,434,615	31,478
Other Expenditures and Adjustments	1,165,426	2,006,879	2,002,153	4,726
Aid and Public Assistance	70,944,351	71,505,220	62,323,985	9,181,235
Reserves	947,325	339,111		339,111
Total Expenditures	146,214,589	147,529,851	131,198,350	16,331,501
Excess of Revenues Over (Under) Expenditures	(38,416,201)	(37,443,406)	(35,712,449)	1,730,957
OTHER FINANCING SOURCES (USES)				
State Appropriations	38,762,847	38,762,847	37,120,411	(1,642,436)
Transfers from Other Departments or Funds		158,841	33,301	(125,540)
Transfers to Other Departments or Funds	(346,646)	(1,420,761)	(1,377,756)	43,005
Total Other Financing Sources	38,416,201	37,500,927	35,775,956	(1,724,971)
Net Change in Fund Balance	0	57,521	63,507	5,986
Fund Balance - July 1, 2017	0	0	0	
Fund Balance - June 30, 2018	\$ 0	\$ 57,521	\$ 63,507	\$ 5,986

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 63,507
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	2,957,227
Payables	(4,352,042)
Deferred Inflows	(97)
Total Basis Differences	(1,394,912)
Other Adjustments:	
Inventories	122,542
Fund Balance (GAAP Basis) June 30, 2018	\$ (1,208,863)

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

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, 2018

Exhibit N-10

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 228,342,644	\$ 241,090,937	\$ 240,356,363	\$ (734,574)
Title IV-D / Child Support	103,221,467	103,554,637	100,145,002	(3,409,635)
Title IV-E / Foster Care	137,719,912	144,063,140	143,862,428	(200,712)
Low Income Energy Program	96,647,437	96,647,437	87,489,566	(9,157,871)
Food Stamps	103,098,246	113,722,631	109,975,009	(3,747,622)
TANF	164,821,042	164,821,042	152,969,983	(11,851,059)
Other Federal Grants	114,198,645	122,776,869	109,244,853	(13,532,016)
Local Grants	721,458,285	792,880,725	753,909,063	(38,971,662)
Fees, Licenses, and Fines	332,215	332,215	360,917	28,702
Miscellaneous Revenues	14,064,279	15,611,779	14,198,900	(1,412,879)
Total Revenues	1,683,904,172	1,795,501,412	1,712,512,084	(82,989,328)
EXPENDITURES				
Salaries and Benefits	29,792,881	29,704,110	26,913,506	2,790,604
Purchased Services	25,053,396	26,774,719	23,459,649	3,315,070
Supplies	246,922	256,015	166,578	89,437
Property, Plant, and Equipment	324,187	416,502	292,867	123,635
Other Expenditures and Adjustments	3,188,436	2,531,751	2,455,968	75,783
Aid and Public Assistance	1,820,795,350	1,933,757,253	1,851,654,298	82,102,955
Reserves	3,042,752	618,942		618,942
Total Expenditures	1,882,443,924	1,994,059,292	1,904,942,866	89,116,426
Excess of Revenues Over (Under) Expenditures	(198,539,752)	(198,557,880)	(192,430,782)	6,127,098
OTHER FINANCING SOURCES (USES)				
State Appropriations	200,692,367	200,689,237	194,627,177	(6,062,060)
Transfers from Other Departments or Funds	9,718,951	16,806,853	16,082,032	(724,821)
Transfers to Other Departments or Funds	(11,265,748)	(19,325,132)	(18,832,342)	492,790
Total Other Financing Sources	199,145,570	198,170,958	191,876,867	(6,294,091)
Net Change in Fund Balance	605,818	(386,922)	(553,915)	(166,993)
Fund Balance - July 1, 2017	3,630,305	3,630,305	3,630,305	
Fund Balance - June 30, 2018	\$ 4,236,123	\$ 3,243,383	\$ 3,076,390	\$ (166,993)

Food stamp benefits are recognized as revenues and expenditures when recipients use the benefits. Food stamps used during the year of \$1,905,603,829 are recognized on the Statement of Revenues, Expenditures, and Changes in Fund Balance, but are not recognized in the budgeted amounts on this schedule.

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 3,076,390
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	87,920,032
Payables	(89,766,311)
Deferred Inflows	(305,003)
Total Basis Differences	(2,151,282)
Other Adjustments:	
Cash	7,252
Inventories	31,441
Fund Balance (GAAP Basis) June 30, 2018	\$ 963,801

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

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, 2018

Exhibit N-11

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 5,253,461	\$ 5,574,486	\$ 4,490,859	\$ (1,083,627)
Reimbursements to Facilities	3,430,467	3,430,467	2,790,441	(640,026)
Medicaid	598,254,401	590,734,404	593,346,874	2,612,470
SAPT Block Grant	43,277,046	44,877,046	45,877,262	1,000,216
Other Federal Grants	26,007,266	51,351,505	38,481,941	(12,869,564)
Local Grants	2,683,838	3,786,824	4,666,932	880,108
Sales, Services, and Rentals	78,881,149	78,881,149	50,281,077	(28,600,072)
Fees, Licenses, and Fines	801,060	801,060	662,841	(138,219)
Contributions and Donations	10,375	10,375	43,625	33,250
Miscellaneous	1,614,505	1,755,843	1,818,541	62,698
Total Revenues	760,213,568	781,203,159	742,460,393	(38,742,766)
EXPENDITURES				
Salaries and Benefits	712,897,569	686,945,799	661,235,669	25,710,130
Purchased Services	61,933,242	97,093,774	91,726,439	5,367,335
Supplies	49,182,282	43,782,576	41,433,761	2,348,815
Property, Plant, and Equipment	5,025,411	5,250,032	4,999,858	250,174
Other Expenditures and Adjustments	7,242,399	16,327,162	15,697,092	630,070
Aid and Public Assistance	470,641,014	479,411,700	465,092,496	14,319,204
Reserves	3,474,796		25,000	(25,000)
Total Expenditures	1,310,396,713	1,328,811,043	1,280,210,315	48,600,728
Excess of Revenues Over (Under) Expenditures	(550,183,145)	(547,607,884)	(537,749,922)	9,857,962
OTHER FINANCING SOURCES (USES)				
State Appropriations	683,270,103	683,271,345	676,121,387	(7,149,958)
Transfers from Other Departments or Funds	72,846,918	99,476,097	96,577,643	(2,898,454)
Transfers to Other Departments or Funds	(205,933,876)	(235,139,558)	(234,949,108)	190,450
Total Other Financing Sources	550,183,145	547,607,884	537,749,922	(9,857,962)
Net Change in Fund Balance	0	0	0	0
Fund Balance - July 1, 2017	0	0	0	
Fund Balance - June 30, 2018	\$ 0	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	39,910,342
Payables	(29,720,626)
Deferred Inflows	(12,507,958)
Total Basis Differences	(2,318,242)
Other Adjustments:	
Inventories	5,117,807
Timing Differences:	
Forward Funded State Aid	3,512,072
Fund Balance (GAAP Basis) June 30, 2018	\$ 6,311,637

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

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, 2018

Exhibit N-12

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal Grants	\$ 5,312,131	\$ 20,762,031	\$ 16,876,194	\$ (3,885,837)
Miscellaneous			162	162
Total Revenues	5,312,131	20,762,031	16,876,356	(3,885,675)
EXPENDITURES				
Salaries and Benefits	4,223,303	3,787,119	2,598,699	1,188,420
Purchased Services	418,869	21,732,298	19,214,449	2,517,849
Supplies		30,000	7,086	22,914
Property, Plant, and Equipment	76,000	298,250	147,683	150,567
Other Expenditures and Adjustments		44,500	38,573	5,927
Total Expenditures	4,718,172	25,892,167	22,006,490	3,885,677
Excess of Revenues Over (Under) Expenditures	593,959	(5,130,136)	(5,130,134)	2
OTHER FINANCING SOURCES (USES)				
State Appropriations	9,725,804	9,722,866	9,722,864	(2)
Transfers from Other Departments or Funds		5,727,033	5,727,033	
Transfers to Other Departments or Funds	(10,319,763)	(10,319,763)	(10,319,763)	
Total Other Financing Sources	(593,959)	5,130,136	5,130,134	(2)
Net Change in Fund Balance	0	0	0	0
Fund Balance - July 1, 2017	0	0	0	
Fund Balance - June 30, 2018	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2018	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	535,067
Payables	(2,845,605)
Total Basis Differences	(2,310,538)
Other Adjustments:	
Inventories	8,511
Fund Balance (GAAP Basis) June 30, 2018	<u>\$ (2,302,027)</u>

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, 2018

A. Budgetary Process

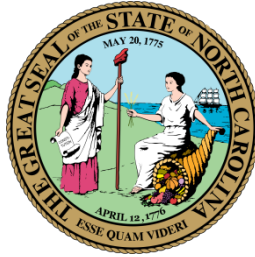
The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the original budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend 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.

Timing differences. A significant variance between budgetary practices and GAAP is any time-restricted appropriations. Section 8(b) of Session Law 2013-397 restricts the use of funds appropriated for the Community Living Housing Fund in the current fiscal year to the subsequent fiscal year. This time-restriction prevented the expense from being recognized on GAAP basis, which resulted in the recognition of a deferred outflow of resources (forward funded state aid).



OTHER SUPPLEMENTARY INFORMATION

North Carolina Department of Health and Human Services
Schedule of Grants, State Aid, and Subsidies Expenditures
By Division
For the Fiscal Year Ended June 30, 2018 (With Comparative Totals for June 30, 2017)

	Central Administration	Medical Assistance (1)	Child Development (2)	Health Service Regulation
GRANTS, STATE AID, AND SUBSIDIES				
Medical Assistance:				
Managed Care	\$ 0	\$ 2,543,038,305	\$ 0	\$ 0
Supplemental Expenditures		2,347,521,214		
Skilled Nursing Facilities and Personal Care		1,372,429,363		
Physician Services		1,520,214,375		
Medical Services		1,510,412,691		
Hospital		1,137,441,433		
Pharmacy Services (Net of Rebates)		724,203,805		
Buy-In / Dual Eligible Expenditures		902,641,986		
Dental		382,339,045		
Other Medical Assistance		15,308,515		
Total Medical Assistance	0	12,455,550,732	0	0
Social Service Programs:				
Food and Nutrition				
Child and Family			531,792,558	
Smart Start Programs			128,714,818	
Support of Aging and Adult Programs				
Support of Medicaid Programs				
Other Social Service Programs				
Total Social Service Programs	0	0	660,507,376	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	39,900,647	0	0	5,463,786
Total Grants, State Aid, and Subsidies Expenditures	\$ 39,900,647	\$ 12,455,550,732	\$ 660,507,376	\$ 5,463,786

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

- (1) See Supplementary Exhibit O-2
- (2) See Supplementary Exhibit O-3
- (3) See Supplementary Exhibit O-4
- (4) See Supplementary Exhibit O-5
- (5) See Supplementary Exhibit O-6

Exhibit O-1

Public Health (3)	Aging	Blind/Deaf Services	Vocational Rehabilitation	Social Services (4)	Mental Health (5)	Total Governmental Funds 2018	Total Governmental Funds 2017
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,543,038,305	\$ 2,513,815,719
						2,347,521,214	2,274,955,719
						1,372,429,363	1,287,857,063
						1,520,214,375	1,486,623,101
						1,510,412,691	1,520,486,368
						1,137,441,433	1,097,585,986
						724,203,805	708,927,472
						902,641,986	852,478,656
						382,339,045	386,768,549
						15,308,515	39,704,176
0	0	0	0	0	0	12,455,550,732	12,169,202,809
315,903,847				2,006,152,271		2,322,056,118	2,602,299,841
78,405,885				585,551,137		1,195,749,580	1,171,834,134
				138,319,354		128,714,818	122,451,155
				235,799,102		138,319,354	140,297,610
				149,535,039		235,799,102	231,935,233
						149,535,039	146,860,288
394,309,732	0	0	0	3,115,356,903	0	4,170,174,011	4,415,678,261
86,579,397						86,579,397	82,332,221
21,049,682						21,049,682	19,604,102
3,923,094						3,923,094	4,292,285
5,445,945						5,445,945	5,396,767
116,998,118	0	0	0	0	0	116,998,118	111,625,375
0	0	0	0	0	436,119,550	436,119,550	387,300,387
0	101,887,074	10,023,153	61,274,599	0	0	218,549,259	201,849,111
<u>\$ 511,307,850</u>	<u>\$ 101,887,074</u>	<u>\$ 10,023,153</u>	<u>\$ 61,274,599</u>	<u>\$ 3,115,356,903</u>	<u>\$ 436,119,550</u>	<u>\$ 17,397,391,670</u>	<u>\$ 17,285,655,943</u>

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, 2018
(With Comparative Amounts for June 30, 2017)

Exhibit O-2

GRANTS, STATE AID, AND SUBSIDIES	2018	2017
Managed Care ¹	\$ 2,543,038,305	\$ 2,513,815,719
Supplemental Expenditures:		
Gap Payment - Upper Payment Limit	917,721,751	784,756,703
Gap Payment - Equity Payment	579,321,314	565,656,876
Disproportionate Share Hospital Payment	290,561,220	367,074,552
Enhanced Payment	559,916,929	557,467,588
Total Supplemental Expenditures	2,347,521,214	2,274,955,719
Skilled Nursing Facilities and Personal Care:		
Skilled Nursing Facilities	920,731,614	864,915,692
Personal Care Services	451,697,749	422,941,371
Total Skilled Nursing Facilities and Personal Care	1,372,429,363	1,287,857,063
Physician Services:		
Physician Services	1,057,907,085	1,027,014,322
Clinics	251,359,240	249,303,302
Community Care of NC (N3CN)	210,948,050	210,305,477
Total Physician Services	1,520,214,375	1,486,623,101
Medical Services:		
Client Assistant Program (CAP)	308,191,141	350,243,006
Equipment	239,249,543	222,700,222
Health Check	91,202,376	96,055,976
Transport	183,512,777	230,763,249
Short Term Care	233,879,230	152,422,918
Non-Physician Services	158,168,056	143,695,192
Standalone Lab/X-Ray	117,369,901	98,479,421
Hospice	75,790,644	72,218,734
Case Management	1,597,235	1,631,092
Medical - General	96,794,938	147,575,734
Family Planning	4,656,850	4,700,824
Total Medical Services	1,510,412,691	1,520,486,368
Hospital:		
Hospital - Outpatient	469,871,074	456,551,355
Hospital - Inpatient	293,423,029	253,571,282
Emergency Room	374,147,330	387,463,349
Total Hospital	1,137,441,433	1,097,585,986
Prescribed Drugs:		
Pharmacy Services	1,958,817,603	1,900,559,408
Less Rebates	(1,234,613,798)	(1,191,631,936)
Total Prescribed Drugs (Net of Rebates)	724,203,805	708,927,472
Buy-In / Dual Eligible Expenditures:		
Medicare Part A	41,228,741	44,515,387
Medicare Part B	537,318,204	509,534,134
Medicare Part D	324,095,041	298,429,135
Total Buy-In / Dual Eligible Expenditures	902,641,986	852,478,656
Dental	382,339,045	386,768,549
Other Medical Assistance:		
Health Information Technology Funding	15,308,515	39,704,176
Total Grants, State Aid, and Subsidies Expenditures	\$ 12,455,550,732	\$ 12,169,202,809

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

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, 2018
(With Comparative Amounts for June 30, 2017)

Exhibit O-3

GRANTS, STATE AID, AND SUBSIDIES	2018	2017
Child and Family:		
Subsidized Child Care Services	\$ 374,626,360	\$ 361,323,809
Pre-K Services	157,166,198	155,375,343
Race to the Top		2,333,025
Total Child and Family	531,792,558	519,032,177
Smart Start Programs:		
Smart Start Subsidized Child Care Services	18,471,435	18,523,651
Smart Start Child Care Related Activities	110,243,383	103,927,504
Total Smart Start Programs	128,714,818	122,451,155
Total Grants, State Aid, and Subsidies Expenditures	\$ 660,507,376	\$ 641,483,332

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, 2018
(With Comparative Amounts for June 30, 2017)

Exhibit O-4

GRANTS, STATE AID, AND SUBSIDIES	2018	2017
Social Service Programs:		
Food and Nutrition:		
Women, Infants, and Children (WIC) Program	\$ 215,707,052	\$ 241,942,712
Other Nutrition	100,196,795	100,830,641
Total Food and Nutrition	315,903,847	342,773,353
Child and Family:		
Maternal and Infant Health	20,673,624	19,171,450
Children Health Services	17,430,422	17,452,239
Child and Adult Prevention	16,336,706	15,101,125
Early Intervention	23,965,133	24,007,247
Total Child and Family	78,405,885	75,732,061
Total Social Service Programs	394,309,732	418,505,414
Public Health Programs:		
Communicable Diseases	86,579,397	82,332,221
General Public Health	21,049,682	19,604,102
Chronic Diseases	3,923,094	4,292,285
Other Public Health Programs	5,445,945	5,396,767
Total Public Health Programs	116,998,118	111,625,375
Total Grants, State Aid, and Subsidies Expenditures	\$ 511,307,850	\$ 530,130,789

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, 2018
(With Comparative Amounts for June 30, 2017)

Exhibit O-5

GRANTS, STATE AID, AND SUBSIDIES	2018	2017
Food and Nutrition:		
Food Stamp Program	\$ 1,905,603,829	\$ 2,156,796,957
Nutrition and Food Education Programs	100,548,442	102,729,531
Total Food and Nutrition	2,006,152,271	2,259,526,488
Child and Family:		
Child Services	380,589,865	385,329,214
Foster Care	89,799,506	76,853,330
Adoption	115,161,766	114,887,352
Total Child and Family	585,551,137	577,069,896
Support of Aging and Adult Programs	138,319,354	140,297,610
Support of Medicaid Programs	235,799,102	231,935,233
Other Social Service Programs:		
Low-Income Energy Assistance Program	88,151,697	86,940,496
Miscellaneous	61,383,342	59,919,792
Total Other Social Service Programs	149,535,039	146,860,288
Total Grants, State Aid, and Subsidies Expenditures	\$ 3,115,356,903	\$ 3,355,689,515

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, 2018
(With Comparative Amounts for June 30, 2017)

Exhibit O-6

GRANTS, STATE AID, AND SUBSIDIES	2018	2017
Mental Health Programs:		
Local Management Entity Expenditures	\$ 411,482,093	\$ 364,464,531
Non-Governmental Expenditures	23,765,761	18,896,225
Governmental Expenditures	871,696	3,939,631
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 436,119,550</u>	<u>\$ 387,300,387</u>

North Carolina Department of Health and Human Services
Combining Balance Sheet
Other Governmental Funds
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit P-1

	Special Revenue Funds (1)	Capital Projects Funds (2)	Total Other Governmental Funds 2018	Total Other Governmental Funds 2017
ASSETS				
Cash and Cash Equivalents	\$ 51,881,472	\$ 37,999,177	\$ 89,880,649	\$ 78,917,890
Receivables:				
Accounts Receivable, Net	631,521		631,521	733,985
Intergovernmental Receivables	1,209,152		1,209,152	1,717,117
Due from Other Funds	225		225	
Inventories	156,381		156,381	201,636
Total Assets	53,878,751	37,999,177	91,877,928	81,570,628
DEFERRED OUTFLOWS OF RESOURCES				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 53,878,751	\$ 37,999,177	\$ 91,877,928	\$ 81,570,628
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 1,631,582	\$ 10,627,662	\$ 12,259,244	\$ 11,576,746
Intergovernmental Payables	25,657		25,657	22,872
Due to Other State Agencies and Funds	210		210	28,642
Due to State of North Carolina Component Units				12,619
Other Liabilities	5,550		5,550	4,197
Total Liabilities	1,662,999	10,627,662	12,290,661	11,645,076
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	172	0	172	0
FUND BALANCES				
Nonspendable Inventories	156,381		156,381	201,636
Restricted for Health and Human Services	1,047,673		1,047,673	1,184,955
Committed to Health and Human Services	49,664,602	34,539,087	84,203,689	76,567,261
Assigned to Health and Human Services	1,392,528		1,392,528	1,219,379
Unassigned	(45,604)	(7,167,572)	(7,213,176)	(9,247,679)
Total Fund Balances	52,215,580	27,371,515	79,587,095	69,925,552
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 53,878,751	\$ 37,999,177	\$ 91,877,928	\$ 81,570,628

(1) See Supplementary Exhibit P-3

(2) See Supplementary Exhibit P-5

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit P-2

	Special Revenue Funds (1)	Capital Projects Funds (2)	Total Other Governmental Funds 2018	Total Other Governmental Funds 2017
REVENUES				
Federal Funds	\$ 60,539,159	\$ 0	\$ 60,539,159	\$ 65,662,912
Local Funds	16,226		16,226	28,280
Sales and Services, Net	2,359,624		2,359,624	2,528,443
Fees, Licenses, and Fines	3,408,263		3,408,263	3,712,528
Revenues from Other State Agencies	11,235,424	14,965,044	26,200,468	35,445,761
Miscellaneous Revenues	741,579		741,579	921,618
Total Revenues	78,300,275	14,965,044	93,265,319	108,299,542
EXPENDITURES				
Salaries and Benefits	38,040,610		38,040,610	41,389,831
Contracted Personal Services	20,279,224		20,279,224	22,669,987
Supplies and Materials	1,473,860		1,473,860	1,235,721
Travel	101,028		101,028	155,363
Communication	384,104		384,104	376,431
Utilities	19,864		19,864	17,913
Other Services	1,032,820		1,032,820	880,611
Other Fixed Charges	513,907		513,907	147,585
Capital Outlay	963,097	26,850,067	27,813,164	33,245,849
Grants, State Aid, and Subsidies	1,027,653		1,027,653	1,629,475
Other Expenditures	2,488,326		2,488,326	2,454,485
Total Expenditures	66,324,493	26,850,067	93,174,560	104,203,251
Excess of Revenues Over (Under) Expenditures	11,975,782	(11,885,023)	90,759	4,096,291
OTHER FINANCING SOURCES (USES)				
State Appropriations		11,792,000	11,792,000	8,856,000
Transfers In	12,634,223	400,000	13,034,223	22,709,850
Transfers Out	(14,909,957)	(400,000)	(15,309,957)	(14,261,509)
Other	54,518		54,518	35,341
Total Other Financing Sources (Uses)	(2,221,216)	11,792,000	9,570,784	17,339,682
Net Change in Fund Balances	9,754,566	(93,023)	9,661,543	21,435,973
Fund Balances - Beginning of Year	42,461,014	27,464,538	69,925,552	48,489,579
Fund Balances - End of Year	\$ 52,215,580	\$ 27,371,515	\$ 79,587,095	\$ 69,925,552

(1) See Supplementary Exhibit P-4

(2) See Supplementary Exhibit P-6

North Carolina Department of Health and Human Services
Combining Balance Sheet
Special Revenue Funds
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit P-3

	Other Special Revenue Fund	Disability Determination Fund	N.C. Dual Party Relay System Fund	Total Special Revenue Funds 2018	Total Special Revenue Funds 2017
ASSETS					
Cash and Cash Equivalents	\$ 34,722,600	\$ 211,848	\$ 16,947,024	\$ 51,881,472	\$ 42,086,317
Receivables:					
Accounts Receivable, Net	416,732	172	214,617	631,521	733,985
Intergovernmental Receivables	6,927	1,202,225		1,209,152	1,717,117
Due from Other Funds	225			225	
Inventories	27,940	128,441		156,381	201,636
Total Assets	35,174,424	1,542,686	17,161,641	53,878,751	44,739,055
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 35,174,424	\$ 1,542,686	\$ 17,161,641	\$ 53,878,751	\$ 44,739,055
LIABILITIES					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 302,483	\$ 1,329,099	\$ 0	\$ 1,631,582	\$ 2,209,711
Intergovernmental Payables		25,657		25,657	22,872
Due to Other State Agencies and Funds		210		210	28,642
Due to State of North Carolina Component Units					12,619
Other Liabilities	5,550			5,550	4,197
Total Liabilities	308,033	1,354,966	0	1,662,999	2,278,041
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	0	172	0	172	0
FUND BALANCES					
Nonspendable Inventories	27,940	128,441		156,381	201,636
Restricted for Health and Human Services	1,038,651	9,022		1,047,673	1,184,955
Committed to Health and Human Services	32,502,961		17,161,641	49,664,602	40,136,641
Assigned to Health and Human Services	1,392,528			1,392,528	1,219,379
Unassigned	(95,689)	50,085		(45,604)	(281,597)
Total Fund Balances	34,866,391	187,548	17,161,641	52,215,580	42,461,014
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 35,174,424	\$ 1,542,686	\$ 17,161,641	\$ 53,878,751	\$ 44,739,055

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit P-4

	Other Special Revenue Fund	Disability Determination Fund	N.C. Dual Party Relay System Fund	Total Special Revenue Funds 2018	Total Special Revenue Funds 2017
REVENUES					
Federal Funds	\$ 1,399,670	\$ 59,139,489	\$ 0	\$ 60,539,159	\$ 65,662,912
Local Funds	16,226			16,226	28,280
Sales and Services, Net	2,359,624			2,359,624	2,528,443
Fees, Licenses, and Fines	600,849		2,807,414	3,408,263	3,712,528
Revenues from Other State Agencies	1,000,000		10,235,424	11,235,424	10,934,272
Miscellaneous Revenues	513,285	983	227,311	741,579	921,618
Total Revenues	5,889,654	59,140,472	13,270,149	78,300,275	83,788,053
EXPENDITURES					
Salaries and Benefits	548,415	37,492,195		38,040,610	41,389,831
Contracted Personal Services	570,404	19,708,820		20,279,224	22,669,987
Supplies and Materials	1,196,522	277,338		1,473,860	1,235,721
Travel	59,862	41,166		101,028	155,363
Communication	36,946	347,158		384,104	376,431
Utilities	19,864			19,864	17,913
Other Services	645,695	387,125		1,032,820	880,611
Other Fixed Charges	47,136	466,771		513,907	147,585
Capital Outlay	864,694	98,403		963,097	805,452
Grants, State Aid, and Subsidies	803,164	224,489		1,027,653	1,629,475
Other Expenditures	159,476	2,328,850		2,488,326	2,454,485
Total Expenditures	4,952,178	61,372,315	0	66,324,493	71,762,854
Excess of Revenues Over (Under) Expenditures	937,476	(2,231,843)	13,270,149	11,975,782	12,025,199
OTHER FINANCING SOURCES (USES)					
Transfers In	10,109,590	2,524,633		12,634,223	22,597,790
Transfers Out	(2,704,284)		(12,205,673)	(14,909,957)	(14,149,449)
Other	54,518			54,518	37,074
Total Other Financing Sources (Uses)	7,459,824	2,524,633	(12,205,673)	(2,221,216)	8,485,415
Net Change in Fund Balances	8,397,300	292,790	1,064,476	9,754,566	20,510,614
Fund Balances - Beginning of Year	26,469,091	(105,242)	16,097,165	42,461,014	21,950,400
Fund Balances - End of Year	\$ 34,866,391	\$ 187,548	\$ 17,161,641	\$ 52,215,580	\$ 42,461,014

North Carolina Department of Health and Human Services
Combining Balance Sheet
Capital Projects Funds
June 30, 2018 (With Comparative Totals for June 30, 2017)

Exhibit P-5

	Debt Supporting Fund	Non-Debt Supporting Fund	Total Capital Projects Funds 2018	Total Capital Projects Funds 2017
ASSETS				
Cash and Cash Equivalents	\$ 0	\$ 37,999,177	\$ 37,999,177	\$ 36,831,573
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	<u>\$ 0</u>	<u>\$ 37,999,177</u>	<u>\$ 37,999,177</u>	<u>\$ 36,831,573</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	7,089,839	3,537,823	10,627,662	9,367,035
Total Liabilities	<u>7,089,839</u>	<u>3,537,823</u>	<u>10,627,662</u>	<u>9,367,035</u>
DEFERRED INFLOWS OF RESOURCES	0	0	0	0
FUND BALANCES				
Committed to Health and Human Services		34,539,087	34,539,087	36,430,620
Unassigned	(7,089,839)	(77,733)	(7,167,572)	(8,966,082)
Total Fund Balances	<u>(7,089,839)</u>	<u>34,461,354</u>	<u>27,371,515</u>	<u>27,464,538</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 0</u>	<u>\$ 37,999,177</u>	<u>\$ 37,999,177</u>	<u>\$ 36,831,573</u>

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, 2018 (With Comparative Totals for June 30, 2017)

Exhibit P-6

	Debt Supporting Fund	Non-Debt Supporting Fund	Total Capital Projects Funds 2018	Total Capital Projects Funds 2017
REVENUES				
Revenues from Other State Agencies	\$ 14,965,044	\$ 0	\$ 14,965,044	\$ 24,511,489
EXPENDITURES				
Capital Outlay	13,126,149	13,723,918	26,850,067	32,440,397
Excess of Revenues Over (Under) Expenditures	1,838,895	(13,723,918)	(11,885,023)	(7,928,908)
OTHER FINANCING SOURCES (USES)				
State Appropriations		11,792,000	11,792,000	8,856,000
Transfers In		400,000	400,000	112,060
Transfers Out		(400,000)	(400,000)	(112,060)
Other				(1,733)
Total Other Financing Sources	0	11,792,000	11,792,000	8,854,267
Net Change in Fund Balances	1,838,895	(1,931,918)	(93,023)	925,359
Fund Balances - Beginning of Year	(8,928,734)	36,393,272	27,464,538	26,539,179
Fund Balances - End of Year	\$ (7,089,839)	\$ 34,461,354	\$ 27,371,515	\$ 27,464,538

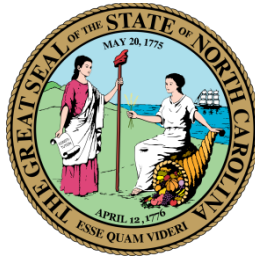
North Carolina Department of Health and Human Services
Transfers By Division
For the Fiscal Year Ended June 30, 2018

	Transfers In - By Division			
	Central Administration	Medical Assistance	Health Service Regulation	Public Health
<u>Transfers Out - By Division</u>				
Central Administration	\$ 3,165,660	\$ 0	\$ 33,000	\$ 451,560
Medical Assistance	261,589			12,156,739
Child Development	5,755,326			
Health Service Regulation	763,577		1,250,636	
Public Health	6,193,792			289,002
Aging	131,608			
Blind/Deaf Services	762,164			
Vocational Rehabilitation	670,707			
Social Services	3,176,062			1,545,690
Mental Health	397,022	159,770,729		
Total Transfers	<u>\$ 21,277,507</u>	<u>\$ 159,770,729</u>	<u>\$ 1,283,636</u>	<u>\$ 14,442,991</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
\$ 330,496	\$ 0	\$ 0	\$ 5,736,321	\$ 3,829,872	\$ 13,546,909
10,952		2,544,156	1,543,724	220,509,758	237,026,918
			2,144,901		7,900,227
					2,014,213
				45,000	6,527,794
					131,608
	12,269,362	5,667			13,037,193
		8,111			678,818
				5,000,000	9,721,752
		150,000		12,420,094	172,737,845
<u>\$ 341,448</u>	<u>\$ 12,269,362</u>	<u>\$ 2,707,934</u>	<u>\$ 9,424,946</u>	<u>\$ 241,804,724</u>	<u>\$ 463,323,277</u>



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the 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, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 12, 2019.

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, 2018, 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

April 12, 2019

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513



This audit required 3,950 hours at an approximate cost of \$446,850, including costs associated with the report on the Department's statewide financial statement audit procedures.