

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

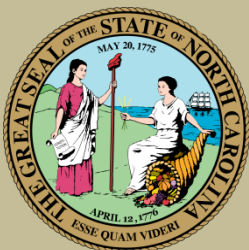


## NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2019

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

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

We have completed a financial statement audit of the North Carolina Department of Health and Human Services for the year ended June 30, 2019, 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 cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# AN OVERVIEW OF HOW TO USE THIS REPORT

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

The Department is comprised of 10 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 subjected to the same auditing procedures performed on the financial statements.

“**A**” **Exhibits** present the Balance Sheet as of June 30, 2019 (with comparative totals for June 30, 2018) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2019 (with comparative totals for fiscal year ended June 30, 2018) for the **Department as a whole**.

“**B**” **Exhibits** present the Balance Sheet as of June 30, 2019 (with comparative totals for June 30, 2018) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2019 (with comparative totals for fiscal year ended June 30, 2018) for the **Department by division**.

“**C**” **through “L” Exhibits** present the Balance Sheet as of June 30, 2019 (with comparative totals for June 30, 2018) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2019 (with comparative totals for fiscal year ended June 30, 2018) 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.

**“M” Exhibits** present a budget and actual comparison for the General Fund (for the fiscal year ended June 30, 2019) of the **Department and each division**. These schedules have not been subjected to the same auditing procedures performed on the financial statements.

**Supplementary Information:**

**“N” Exhibits** present details of one expenditure line item on the financial statements classified as “Grants, State Aid, and Subsidies” for all divisions with further breakdown for selected 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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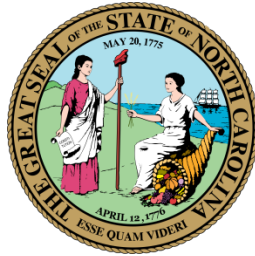
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# **INDEPENDENT AUDITOR'S REPORT**

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



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

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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, Health Benefits, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, and Mental Health/Developmental Disabilities and Substance Abuse Services of the North Carolina Department of Health and Human Services (Department) as of and for the year ended June 30, 2019, 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, Health Benefits, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, and Mental Health/Developmental Disabilities and Substance Abuse Services of the North Carolina Department of Health and Human Services, as of June 30, 2019, 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, 2019, 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, 2019, the divisions of Medical Assistance and Health Benefits combined into one division called the Division of Health Benefits. 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, Health Benefits, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, and Mental Health/Developmental Disabilities and Substance Abuse Services of the Department as of June 30, 2018 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 April 12, 2019. The prior period supplementary schedules of grants, state aid, and subsidies expenditures 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 Supplementary Information*

The accompanying supplementary schedules of grants, state aid, and subsidies expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules of grants, state aid, and subsidies expenditures are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

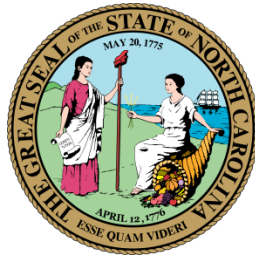
In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2020 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 11, 2020



# **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, 2019 and 2018. 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 Department only has governmental funds, which consist of the General Fund, Special Revenue Fund, and Capital Projects Fund. The Department's fund financial statements provide detailed information about each fund. The General Fund is presented separately on the overall Department's financial statements since it is the Department's most significant governmental fund. Data for all other governmental funds is combined into a single aggregated presentation on the overall Department's financial statements. All governmental funds are presented separately in the individual division financial statements.

### ***Governmental Funds***

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

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

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

**Required Supplementary Information**

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

**Other Supplementary Information**

Other supplementary information includes the schedules of grants, state aid, and subsidies expenditures.

**Financial Analysis of the Department**

The following is comparative condensed financial information and a financial analysis for balances reported as of June 30, 2019 and 2018.

North Carolina Department of Health and Human Services  
Condensed Balance Sheets  
Governmental Funds

	<u>2019</u>	<u>2018</u>
Assets	\$ 1,408,251,493	\$ 1,313,340,911
Deferred Outflows of Resources	7,295,643	3,960,972
Total Assets and Deferred Outflows	<u>\$ 1,415,547,136</u>	<u>\$ 1,317,301,883</u>
Liabilities	\$ 1,513,896,897	\$ 1,423,563,351
Deferred Inflows of Resources	44,736,776	14,042,174
Fund Balances		
Nonspendable	10,010,211	9,355,937
Restricted	86,493,277	73,427,862
Committed	126,011,825	107,214,186
Assigned	5,441,132	4,172,858
Unassigned	<u>(371,042,982)</u>	<u>(314,474,485)</u>
Total Fund Balances	<u>(143,086,537)</u>	<u>(120,303,642)</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,415,547,136</u>	<u>\$ 1,317,301,883</u>

Total assets and deferred outflows increased \$98.2 million, or 7.5%, compared to fiscal year 2018. This increase is primarily related to cash and cash equivalents of \$50.8 million due to \$34.0 million in the special revenue fund for proceeds from the sale of the Dorothea Dix property (appropriated and transferred from the Office of State Budget and Management) and \$19.7 million in cash on hand for federal programs. The \$50.4 million increase in intergovernmental receivables is primarily related to increased grants, state aid, and subsidies expenditures discussed below.

Total liabilities increased \$90.3 million or 6.3%, compared to fiscal year 2018. The Division of Health Benefits' (DHB) medical claims payable increase of \$69.1 million is primarily related to \$45.7 million for the retroactively applied physician rate increase. The remaining increase is due directly to the actuarial calculation of claims incurred but not paid. There are many factors used by the actuary in determining the claims incurred but not paid; for example, month of service, months between service date and payment date, and categories of services, etc.

Deferred inflows increased \$30.7 million, primarily at DHB related to the federal share of the medical claims payments for the retroactively applied physician rate increase.

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

	2019	2018
<b>Revenues</b>		
Federal Funds	\$ 14,031,121,250	\$ 13,649,859,965
Other Revenues	649,955,634	596,158,950
Total Revenues	<u>14,681,076,884</u>	<u>14,246,018,915</u>
<b>Expenditures</b>		
Salaries and Benefits	1,163,248,725	1,105,400,961
Contracted Personal Services	486,669,622	433,683,565
Supplies and Materials	55,747,833	54,212,485
Travel	8,201,806	8,412,773
Communication	9,299,598	10,151,596
Utilities	16,713,537	16,495,885
Data Processing Services	15,743,550	12,219,137
Other Services	15,651,507	17,535,927
Other Fixed Charges	32,534,138	19,395,423
Capital Outlay	57,927,651	49,120,115
Grants, State Aid, and Subsidies	17,827,366,948	17,397,391,670
Expenditures to Other State Agencies	203,311,137	183,213,100
Other Expenditures	32,381,576	41,581,376
Total Expenditures	<u>19,924,797,628</u>	<u>19,348,814,013</u>
Excess Expenditures Over Revenues	<u>(5,243,720,744)</u>	<u>(5,102,795,098)</u>
<b>Other Financing Sources (Uses)</b>		
State Appropriations	5,279,095,888	5,187,145,036
Transfers In	527,888,610	463,323,277
Transfers Out	(527,888,610)	(463,323,277)
Transfers from State Reserve Fund	155,533,632	177,537,127
Transfers to State Reserve Fund	(209,058,787)	(148,198,853)
Other	(4,632,884)	21,583,403
Total Other Financing Sources	<u>5,220,937,849</u>	<u>5,238,066,713</u>
Net Change in Fund Balances	(22,782,895)	135,271,615
Fund Balances - Beginning of Year	<u>(120,303,642)</u>	<u>(255,575,257)</u>
Fund Balances - End of Year	<u>\$ (143,086,537)</u>	<u>\$ (120,303,642)</u>

Total revenues increased \$435.1 million, or 3.1% compared to the prior year, primarily due to an increase in federal funds of \$381.3 million, or 2.8%. The increase in federal funds is primarily related 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 subsidies expenditures usually results in more federal fund reimbursements. Revenues from other state agencies increased \$37.4 million, primarily due to the funds transferred from the Office of State Budget and Management from the sale of Dorothea Dix property (discussed above). Fees, licenses, and fines increased \$11.3 million, primarily related to increased fees (from \$24 to \$128) for newborn screenings at the Division of Public Health.



Total expenditures increased \$576.0 million, or 3.0% compared to the prior year. The increase was primarily due to an increase of \$430.0 million, or 2.5%, in spending for grants, state aid, and subsidies. The increase was primarily in grant expenditures of \$273.0 million at the DHB in the Medicaid and NC Health Choice programs. See supplementary Exhibit N-2 for further details on DHB's grant expenditures. Expenditures for salaries and benefits increased \$57.8 million due to legislative salary increases and in the minimum wage rate for all state jobs to \$15 per hour. This increase primarily affected the mental health institutions due to the large number of housekeeping and dietary staff. Contracted personal services expenditures increased \$53.0 million, which primarily consisted of vendor and short-term staffing for the continuing development of the NC FAST project and other computer automation and application services related projects. Expenditures to other state agencies increased \$20.1 million due to increased transfers to the Department of Information Technology for the development of a controlled substances reporting system and a child welfare assistance program.

Total other financing sources decreased \$17.1 million, or 0.3% compared to the prior year. State appropriations increased \$92.0 million, or 1.8%, primarily due to the total increase in grants, state aid, and subsidies expenditures. State appropriations are used to provide the non-federal share of the federal programs. Transfers to the state reserve fund increased \$60.9 million, primarily due to current year cash carryforward requests at DHB. Other sources decreased \$26.2 million, primarily due to a decrease in insurance recoveries from the prior 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, 2019, the Department reported a fund balance deficit of \$143.1 million, an increase of \$22.8 million or 18.9%, from the prior fiscal year. The majority of this amount was classified as unassigned fund balance in the General Fund. 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's most significant governmental fund is the General Fund. The fund balance deficit of the Department's General Fund increased \$42.5 million, or 21.2% to a negative \$242.4 million at June 30, 2019. The negative fund balance increase is primarily attributable to the increased medical claims at DHB for the retroactively applied physician rate increase, as discussed above.

The unassigned fund balance deficit increased \$56.6 million as a result of the changes in current year activity, as discussed above. Restricted fund balance increased \$13.1 million, primarily related to an increase in returns of overpayments and settlements from providers at DHB. The committed fund balance increased \$18.8 million primarily as a result of funds transferred to the Division of Mental Health for the Dorothea Dix property, as discussed above.

### **Budget Variations**

Data for the Department's budget variances is presented in Exhibit M-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 \$411.2 million and \$373.7 million, respectively, more than the original budget. The budgeted revenue increases are primarily comprised of a \$191.8 million in the final budgeted federal funds, \$88.5 million in fees, licenses, and fines, and \$143.1 million in local grants and provider match funds. The budgeted expenditure increases are primarily comprised of a \$257.2 million increase in the financial aid and public assistance expenditures and a \$168.6 million increase in purchased services. Generally, the variances between the 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 2018-19 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 \$541.8 million less than the final budgeted revenue amounts. Likewise, actual total expenditures were \$758.5 million less than budgeted expenditures. Budgeted revenues and expenditures were unrealized mostly due to a \$383.4 million decrease in aid and public assistance payments incurred versus the amount budgeted and a \$224.1 million decrease in purchased services. 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 \$618.8 million less than budgeted.

**Economic Outlook**

Highlights of certain divisions within the Department are listed below.

**Division of Health Benefits (DHB)**

- DHB had originally planned to roll out Medicaid Managed Care in two phases for Standard Plans during fiscal year 2020. The first phase, covering two Regions (27 Counties), was set to go live on November 1, 2019. The second phase, covering the remaining four Regions (73 Counties) of the State was set to go live on February 1, 2020. As a result of not having a State budget in place by September 2019 to support this ambitious initiative, this schedule was adjusted such that two phases would be combined for statewide launch on February 1, 2020. Subsequently, when the 2019 legislative session ended in mid-November 2019 without the needed actions required for Managed Care to move forward, the Department suspended the start of Managed Care. DHB required new spending and program authority to complete the transition to Managed Care. Open enrollment for beneficiaries was also suspended. NC Medicaid will continue to operate under the current Fee-For-Service model. The Department will not decide on a new go live date until it has the needed legislative authority for certain Managed Care components and the right budget.

- DHB presented its Economic Outlook for fiscal year 2019 and the subsequent six years (through fiscal year 2025) to the NC General Assembly in a required Legislative Report dated April 9, 2019. This report was submitted per Session Law 2018-5, Section 11H.9. The report provides a detailed forecast for the transition to Medicaid Managed Care, including Standard Plans and Tailored Plans. The report can be viewed on NC Medicaid's website: <https://medicaid.ncdhhs.gov/reports/legislative-reports>. Please note that this report was submitted in April 2019 when DHB was still planning to launch Medicaid Managed Care in two phases.

### **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. The first iterations of "live" sites are anticipated by the end of the calendar year.
- DHSR is appealing a recent ruling adverse to DHSR awarding \$500,000 in damages. Losing the appeal and having to pay \$500,000 will have a significant impact on the DHSR budget.
- An approved salary increase effective at the beginning of fiscal year 2021 will reduce DHSR's operating budget as approximately 383 employees draw an average of 43% of their salary from fixed federal grants. The federal grants do not add a salary increase to match the State increase. The State salary increase only provides funds for the State portion of salary, which forces DHSR to cut areas of operating budget to compensate for the shortfall.
- Additional full-time equivalent positions are needed to accommodate increased survey/licensure requirements. Failure to meet federally-mandated survey/licensing requirements could result in lost/reduced federal funds.

### **Division of Public Health (DPH)**

- The Division of Public Health has applied for and received the following new grants:
  - Centers for Disease Control (CDC) Overdose Data to Action grant in the amount of \$7,003,731 to conduct surveillance activities to monitor and gather data about the scope and nature of the overdose problem, supporting the State's Opioid Action Plan.
  - Health and Human Services Maternal Health Innovation grant to strengthen partnerships and collaboration by establishing a state-focused Maternal Health Task Force, improving state-level data surveillance on maternal mortality and severe maternal morbidity, and promoting and implementing innovation in maternal health service delivery. This is a five year grant with an annual award amount of \$2,104,678 and supports the key goal of the state's Early Childhood Action Plan and Perinatal Health Strategic Plan.
  - CDC Strategic Partnerships and Planning to Support Ending the Epidemic (EtE) HIV Project. This award is in the amount of \$328,354 with the majority of the funding

passing directly through to Mecklenburg County with state oversight. EtE aims to reduce new HIV infections in the U.S. by 90% by 2030.

- The N.C. Commission for Public Health has adopted a rule requiring licensed child care centers in North Carolina to test their drinking water for lead. The centers will have one year to perform lead testing. The Division of Public Health applied for and was awarded the Water Infrastructure Improvements for the Nation (WIIN): Lead Testing in School and Child Care Program Drinking Water Grant in the amount of \$964,000 to support testing efforts.
- Our Epidemiology Section continues to respond to public health emergencies such as natural disasters and outbreaks, including the 2019 novel coronavirus (COVID-19) outbreak, as well as coordinating preparedness for large events such as the 2020 National Republican Convention to be held in Charlotte. North Carolina recently received a rank of “high” by the Trust for America’s Health report, “Ready or Not: Protecting the Public’s Health from Diseases, Disasters, and Bioterrorism 2020”.

#### **Division of Aging and Adult Services (DAAS)**

- According to the Carolina Population Center located at the University of North Carolina, North Carolina is the 6<sup>th</sup> fastest growing state with an 18.5% overall growth rate, and an anticipated growth rate in the 65+ years demographic of 17% by the 2020 census. This will result in a sizeable increase in individuals that may seek access to Home and Community Care Block Grant services in the future.

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

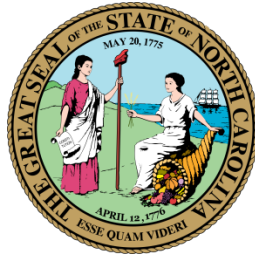
- Based on recent results on the federal Child and Family Services review, North Carolina must take immediate actions to improve its performance in providing critical services to children and their families. The state has two years to demonstrate improvement. The Division of Social Services received \$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).

#### **Division of Mental Health/Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS)**

- 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.

#### **Other Divisions**

- The Department is in the process of procuring a new system for case management, reporting, and oversight of the Business Enterprise Program, which would replace a legacy system that will no longer be supported by the vendor after December 2020. They are working with the Department’s IT Division, Project Management Office, to develop and review the Request for Proposal. This change impacts the divisions of Vocational Rehabilitation and Services for the Blind/Deaf and Hard of Hearing.



# FINANCIAL STATEMENTS

**North Carolina Department of Health and Human Services**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit A-1**

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2019	Total Governmental Funds 2018
<b>ASSETS</b>				
Cash and Cash Equivalents (Note 2)	\$ 248,422,392	\$ 107,399,789	\$ 355,822,181	\$ 305,014,212
Receivables:				
Accounts Receivable, Net (Note 4)	120,247,259	417,210	120,664,469	131,547,662
Intergovernmental Receivables (Note 4)	915,075,271	1,203,943	916,279,214	865,893,656
Due from Other Funds	5,419,182	56,236	5,475,418	1,529,444
Inventories	9,781,187	229,024	10,010,211	9,355,937
<b>Total Assets</b>	<b>1,298,945,291</b>	<b>109,306,202</b>	<b>1,408,251,493</b>	<b>1,313,340,911</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Forward Funded State Aid	7,295,643	0	7,295,643	3,960,972
<b>Total Assets and Deferred Outflows</b>	<b>\$ 1,306,240,934</b>	<b>\$ 109,306,202</b>	<b>\$ 1,415,547,136</b>	<b>\$ 1,317,301,883</b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 112,755,179	\$ 10,013,928	\$ 122,769,107	\$ 117,532,832
Intergovernmental Payables (Note 6)	327,569,801	19,340	327,589,141	315,486,741
Medical Claims Payable (Note 7)	1,049,614,791		1,049,614,791	982,383,768
Due to Other State Agencies and Funds	10,830,111	300	10,830,411	6,863,873
Due to State of North Carolina Component Units	3,093,447		3,093,447	1,290,587
Other Liabilities				5,550
<b>Total Liabilities</b>	<b>1,503,863,329</b>	<b>10,033,568</b>	<b>1,513,896,897</b>	<b>1,423,563,351</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	44,736,776	0	44,736,776	14,042,174
<b>FUND BALANCES</b>				
Nonspendable Inventories	9,781,187	229,024	10,010,211	9,355,937
Restricted for Health and Human Services	85,466,358	1,026,919	86,493,277	73,427,862
Committed to Health and Human Services	22,592,701	103,419,124	126,011,825	107,214,186
Assigned to Health and Human Services	3,970,660	1,470,472	5,441,132	4,172,858
Unassigned	(364,170,077)	(6,872,905)	(371,042,982)	(314,474,485)
<b>Total Fund Balances</b>	<b>(242,359,171)</b>	<b>99,272,634</b>	<b>(143,086,537)</b>	<b>(120,303,642)</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 1,306,240,934</b>	<b>\$ 109,306,202</b>	<b>\$ 1,415,547,136</b>	<b>\$ 1,317,301,883</b>

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

(1) Other Governmental Funds include Special Revenue Funds and Capital Projects Fund.

**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, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit A-2**

	General Fund	Other Governmental Funds (1)	Total Governmental Funds 2019	Total Governmental Funds 2018
<b>REVENUES</b>				
Federal Funds	\$ 13,972,014,384	\$ 59,106,866	\$ 14,031,121,250	\$ 13,649,859,965
Local Funds	129,553,781		129,553,781	130,649,751
Sales and Services	2,169,687	2,299,190	4,468,877	4,709,513
Net Patient Service Revenue (Note 10)	45,282,191		45,282,191	50,441,005
Fees, Licenses, and Fines (Note 11)	205,026,151	2,569,390	207,595,541	196,264,920
Revenues from Other State Agencies (Note 12)	92,873,215	56,511,515	149,384,730	111,945,394
Miscellaneous Revenues	112,966,937	703,577	113,670,514	102,148,367
Total Revenues	<u>14,559,886,346</u>	<u>121,190,538</u>	<u>14,681,076,884</u>	<u>14,246,018,915</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	1,125,130,911	38,117,814	1,163,248,725	1,105,400,961
Contracted Personal Services	466,937,432	19,732,190	486,669,622	433,683,565
Supplies and Materials	54,078,099	1,669,734	55,747,833	54,212,485
Travel	8,109,117	92,689	8,201,806	8,412,773
Communication	8,926,089	373,509	9,299,598	10,151,596
Utilities	16,699,303	14,234	16,713,537	16,495,885
Data Processing Services	15,743,382	168	15,743,550	12,219,137
Other Services	14,726,817	924,690	15,651,507	17,535,927
Other Fixed Charges	32,081,230	452,908	32,534,138	19,395,423
Capital Outlay	34,323,636	23,604,015	57,927,651	49,120,115
Grants, State Aid, and Subsidies (Exhibit N-1)	17,819,442,788	7,924,160	17,827,366,948	17,397,391,670
Expenditures to Other State Agencies (Note 12)	193,311,137	10,000,000	203,311,137	183,213,100
Other Expenditures	29,923,494	2,458,082	32,381,576	41,581,376
Total Expenditures	<u>19,819,433,435</u>	<u>105,364,193</u>	<u>19,924,797,628</u>	<u>19,348,814,013</u>
Excess of Revenues Over (Under) Expenditures	<u>(5,259,547,089)</u>	<u>15,826,345</u>	<u>(5,243,720,744)</u>	<u>(5,102,795,098)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	5,272,620,888	6,475,000	5,279,095,888	5,187,145,036
Transfers In (Note 13)	511,356,295	16,532,315	527,888,610	463,323,277
Transfers Out (Note 13)	(508,698,585)	(19,190,025)	(527,888,610)	(463,323,277)
Transfers from State Reserve Fund	155,533,632		155,533,632	177,537,127
Transfers to State Reserve Fund	(209,058,787)		(209,058,787)	(148,198,853)
Other	(4,674,788)	41,904	(4,632,884)	21,583,403
Total Other Financing Sources	<u>5,217,078,655</u>	<u>3,859,194</u>	<u>5,220,937,849</u>	<u>5,238,066,713</u>
Net Change in Fund Balances	(42,468,434)	19,685,539	(22,782,895)	135,271,615
Fund Balances - Beginning of Year	(199,890,737)	79,587,095	(120,303,642)	(255,575,257)
Fund Balances - End of Year	<u>\$ (242,359,171)</u>	<u>\$ 99,272,634</u>	<u>\$ (143,086,537)</u>	<u>\$ (120,303,642)</u>

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

(1) Other Governmental Funds include Special Revenue Funds and Capital Projects Fund.

**North Carolina Department of Health and Human Services**  
**Balance Sheet By Division**  
**Governmental Funds**  
**June 30, 2019 (With Comparative Totals for June 30, 2018)**

	Central Administration (1)	Health Benefits (2)	Child Development (3)	Health Service Regulation (4)
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 161,487,340	\$ 50,380,859	\$ 86,498	\$ 35,839,094
Receivables:				
Accounts Receivable, Net (Note 4)	847	75,071,616	1,509,965	1,707,311
Intergovernmental Receivables	23,143,581	736,985,512	32,737,220	2,137,333
Due from Other Funds	65,804	1,528,535		
Inventories	245,053	12,548	14,617	6,425
<b>Total Assets</b>	<b>184,942,625</b>	<b>863,979,070</b>	<b>34,348,300</b>	<b>39,690,163</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Forward Funded State Aid	1,254,262	911,477	0	0
<b>Total Assets and Deferred Outflows</b>	<b>\$ 186,196,887</b>	<b>\$ 864,890,547</b>	<b>\$ 34,348,300</b>	<b>\$ 39,690,163</b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities				
Accounts Payable	\$ 19,023,839	\$ 18,148,424	\$ 38,657,744	\$ 1,117,958
Intergovernmental Payables	133,753,369	92,266,408	396,409	830,309
Medical Claims Payable (Note 7)		1,040,243,407		
Due to Other State Agencies and Funds	2,085,089	3,791,219	213,519	101,394
Due to State of North Carolina Component Units		355,562	138,400	64,324
Other Liabilities				
<b>Total Liabilities</b>	<b>154,862,297</b>	<b>1,154,805,020</b>	<b>39,406,072</b>	<b>2,113,985</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	117	30,676,005	4,877	1,029,163
<b>FUND BALANCES</b>				
Nonspendable Inventories	245,053	12,548	14,617	6,425
Restricted for Health and Human Services	100,689	47,845,531	1,505,088	31,316,007
Committed to Health and Human Services	16,424,861		86,498	5,081,227
Assigned to Health and Human Services	3,970,660			
Unassigned	10,593,210	(368,448,557)	(6,668,852)	143,356
<b>Total Fund Balances</b>	<b>31,334,473</b>	<b>(320,590,478)</b>	<b>(5,062,649)</b>	<b>36,547,015</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 186,196,887</b>	<b>\$ 864,890,547</b>	<b>\$ 34,348,300</b>	<b>\$ 39,690,163</b>

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



**Exhibit B-1**

<b>Public Health (5)</b>	<b>Aging (6)</b>	<b>Blind/ Deaf Services (7)</b>	<b>Vocational Rehabilitation (8)</b>	<b>Social Services (9)</b>	<b>Mental Health (10)</b>	<b>Total Governmental Funds 2019</b>	<b>Total Governmental Funds 2018</b>
\$ 6,417,441	\$ 0	\$ 15,427,313	\$ 89,287	\$ 3,173,092	\$ 82,921,257	\$ 355,822,181	\$ 305,014,212
6,543,674		32,178	6,150	6,592,388	29,200,340	120,664,469	131,547,662
20,992,461	1,313,960	495,918	5,420,213	80,185,457	12,867,559	916,279,214	865,893,656
1,061		120	22,255	206,584	3,651,059	5,475,418	1,529,444
4,081,820	4,927	27,228	317,140	30,018	5,270,435	10,010,211	9,355,937
<u>38,036,457</u>	<u>1,318,887</u>	<u>15,982,757</u>	<u>5,855,045</u>	<u>90,187,539</u>	<u>133,910,650</u>	<u>1,408,251,493</u>	<u>1,313,340,911</u>
0	37,858	0	0	0	5,092,046	7,295,643	3,960,972
<u>\$ 38,036,457</u>	<u>\$ 1,356,745</u>	<u>\$ 15,982,757</u>	<u>\$ 5,855,045</u>	<u>\$ 90,187,539</u>	<u>\$ 139,002,696</u>	<u>\$ 1,415,547,136</u>	<u>\$ 1,317,301,883</u>
\$ 16,521,302	\$ 254,836	\$ 903,536	\$ 5,803,216	\$ 5,744,834	\$ 16,593,418	\$ 122,769,107	\$ 117,532,832
11,179,786	7,831,572	56,096	35,363	80,882,853	356,976	327,589,141	315,486,741
405,410		183,065	332,514		8,450,395	1,049,614,791	982,383,768
450,638	3,708	172,659	133,920	48,592	3,829,673	10,830,411	6,863,873
694,282	25,669	8,675	2,843	368,865	1,434,827	3,093,447	1,290,587
							5,550
<u>29,251,418</u>	<u>8,115,785</u>	<u>1,324,031</u>	<u>6,307,856</u>	<u>87,045,144</u>	<u>30,665,289</u>	<u>1,513,896,897</u>	<u>1,423,563,351</u>
3,313,660	0	136	4	175,907	9,536,907	44,736,776	14,042,174
4,081,820	4,927	27,228	317,140	30,018	5,270,435	10,010,211	9,355,937
2,724,657		9,973	133,166	1,811,972	1,046,194	86,493,277	73,427,862
3,837,627	37,858	15,341,033	61,172	1,059,250	84,082,299	126,011,825	107,214,186
		3,468			1,467,004	5,441,132	4,172,858
<u>(5,172,725)</u>	<u>(6,801,825)</u>	<u>(723,112)</u>	<u>(964,293)</u>	<u>65,248</u>	<u>6,934,568</u>	<u>(371,042,982)</u>	<u>(314,474,485)</u>
<u>5,471,379</u>	<u>(6,759,040)</u>	<u>14,658,590</u>	<u>(452,815)</u>	<u>2,966,488</u>	<u>98,800,500</u>	<u>(143,086,537)</u>	<u>(120,303,642)</u>
<u>\$ 38,036,457</u>	<u>\$ 1,356,745</u>	<u>\$ 15,982,757</u>	<u>\$ 5,855,045</u>	<u>\$ 90,187,539</u>	<u>\$ 139,002,696</u>	<u>\$ 1,415,547,136</u>	<u>\$ 1,317,301,883</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, 2019 (With Comparative Totals for June 30, 2018)**

	Central Administration (1)	Health Benefits (2)	Child Development (3)	Health Service Regulation (4)
<b>REVENUES</b>				
Federal Funds	\$ 180,714,406	\$ 9,296,040,833	\$ 464,031,628	\$ 29,542,905
Local Funds	525,887			537,317
Sales and Services		10,876		376,467
Net Patient Service Revenue (Note 10)				
Fees, Licenses, and Fines (Note 11)	863,802	158,843,287	2,163,475	18,267,646
Revenues from Other State Agencies (Note 12)	3,306,688		78,252,110	335,911
Miscellaneous Revenues	96,779	16,068,019	97,559	704,472
Total Revenues	<u>185,507,562</u>	<u>9,470,963,015</u>	<u>544,544,772</u>	<u>49,764,718</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	80,793,878	37,495,250	20,809,144	44,164,396
Contracted Personal Services	174,957,126	159,540,309	5,750,878	3,936,888
Supplies and Materials	1,197,203	191,150	112,946	275,083
Travel	649,918	304,657	460,979	1,484,139
Communication	1,708,161	414,891	330,727	576,823
Utilities	3,549,298			3,267
Data Processing Services	14,566,447	169,175	25,340	1,250
Other Services	1,013,877	1,000,509	179,791	277,148
Other Fixed Charges	19,604,273	337,071	177,187	132,663
Capital Outlay	12,088,276	1,106,460	191,154	544,697
Grants, State Aid, and Subsidies (Exhibit N-1)	37,770,814	12,728,567,562	732,007,823	6,285,980
Expenditures to Other State Agencies (Note 12)	3,700,000	182,629,400		3,501,716
Other Expenditures	3,507,827	828,494	4,828,405	1,203,548
Total Expenditures	<u>355,107,098</u>	<u>13,112,584,928</u>	<u>764,874,374</u>	<u>62,387,598</u>
Excess of Revenues Over (Under) Expenditures	<u>(169,599,536)</u>	<u>(3,641,621,913)</u>	<u>(220,329,602)</u>	<u>(12,622,880)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	143,952,426	3,758,452,820	228,529,231	18,021,646
Transfers In	46,829,933	161,840,365	38,759	1,950,561
Transfers Out	(12,403,745)	(287,163,485)	(2,572,891)	(3,414,691)
Transfers from State Reserve Fund	2,247,076	78,607,454	2,755,404	1,020,005
Transfers to State Reserve Fund	(699,030)	(143,439,535)	(3,439,572)	(989,857)
Other	75	(7,745,741)		
Total Other Financing Sources	<u>179,926,735</u>	<u>3,560,551,878</u>	<u>225,310,931</u>	<u>16,587,664</u>
Net Change in Fund Balances	10,327,199	(81,070,035)	4,981,329	3,964,784
Fund Balances - Beginning of Year	<u>21,007,274</u>	<u>(239,520,443)</u>	<u>(10,043,978)</u>	<u>32,582,231</u>
Fund Balances - End of Year	<u>\$ 31,334,473</u>	<u>\$ (320,590,478)</u>	<u>\$ (5,062,649)</u>	<u>\$ 36,547,015</u>

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

**Exhibit B-2**

<b>Public Health (5)</b>	<b>Aging (6)</b>	<b>Blind/ Deaf Services (7)</b>	<b>Vocational Rehabilitation (8)</b>	<b>Social Services (9)</b>	<b>Mental Health (10)</b>	<b>Total Governmental Funds 2019</b>	<b>Total Governmental Funds 2018</b>
\$ 447,600,191	\$ 55,688,605	\$ 17,393,346	\$ 145,523,452	\$ 2,905,396,839	\$ 489,189,045	\$ 14,031,121,250	\$ 13,649,859,965
4,802,868	10,429,425	631,446	2,593,792	107,872,352	2,160,694	129,553,781	130,649,751
1,302,042		945,755	373,754		1,459,983	4,468,877	4,709,513
					45,282,191	45,282,191	50,441,005
24,588,239	11,239	1,937,167		325,023	595,663	207,595,541	196,264,920
3,385,146		8,374,256		2,269,270	53,461,349	149,384,730	111,945,394
71,796,182	96,156	783,169	7,424,510	7,667,561	8,936,107	113,670,514	102,148,367
<u>553,474,668</u>	<u>66,225,425</u>	<u>30,065,139</u>	<u>155,915,508</u>	<u>3,023,531,045</u>	<u>601,085,032</u>	<u>14,681,076,884</u>	<u>14,246,018,915</u>
131,950,414	5,749,604	20,414,138	93,976,865	25,446,361	702,448,675	1,163,248,725	1,105,400,961
35,197,602	1,627,619	3,882,906	21,247,848	16,856,522	63,671,924	486,669,622	433,683,565
7,820,065	38,063	411,915	1,135,930	146,994	44,418,484	55,747,833	54,212,485
2,116,311	126,360	732,583	1,130,838	640,397	555,624	8,201,806	8,412,773
1,555,702	36,388	341,062	1,537,630	440,442	2,357,772	9,299,598	10,151,596
200,503		22,597	411,533	259	12,526,080	16,713,537	16,495,885
268,573		168		146,864	565,733	15,743,550	12,219,137
3,380,368	35,296	608,643	903,970	6,106,015	2,145,890	15,651,507	17,535,927
4,107,589	27,191	98,384	649,237	1,858,184	5,542,359	32,534,138	19,395,423
5,032,188	29,421	1,061,874	1,075,801	337,233	36,460,547	57,927,651	49,120,115
500,233,463	109,258,277	10,616,546	65,718,623	3,169,117,716	467,790,144	17,827,366,948	17,397,391,670
		9,504	39,996	3,430,521	10,000,000	203,311,137	183,213,100
8,371,810	141,972	1,338,637	6,797,717	548,768	4,814,398	32,381,576	41,581,376
<u>700,234,588</u>	<u>117,070,191</u>	<u>39,538,957</u>	<u>194,625,988</u>	<u>3,225,076,276</u>	<u>1,353,297,630</u>	<u>19,924,797,628</u>	<u>19,348,814,013</u>
<u>(146,759,920)</u>	<u>(50,844,766)</u>	<u>(9,473,818)</u>	<u>(38,710,480)</u>	<u>(201,545,231)</u>	<u>(752,212,598)</u>	<u>(5,243,720,744)</u>	<u>(5,102,795,098)</u>
152,096,605	46,885,165	7,890,327	38,677,483	203,990,680	680,599,505	5,279,095,888	5,187,145,036
15,631,277	1,071,505	13,165,245	2,980,804	11,025,211	273,354,950	527,888,610	463,323,277
(14,688,640)	(250,532)	(14,035,537)	(2,735,235)	(11,238,247)	(179,385,607)	(527,888,610)	(463,323,277)
3,030,843	647,294	79,062		3,321,357	63,825,137	155,533,632	177,537,127
(1,282,905)	(615,189)	(270,666)	(417,415)	(3,551,083)	(54,353,535)	(209,058,787)	(148,198,853)
20,768	9	41,904	5,308		3,044,793	(4,632,884)	21,583,403
<u>154,807,948</u>	<u>47,738,252</u>	<u>6,870,335</u>	<u>38,510,945</u>	<u>203,547,918</u>	<u>787,085,243</u>	<u>5,220,937,849</u>	<u>5,238,066,713</u>
8,048,028	(3,106,514)	(2,603,483)	(199,535)	2,002,687	34,872,645	(22,782,895)	135,271,615
(2,576,649)	(3,652,526)	17,262,073	(253,280)	963,801	63,927,855	(120,303,642)	(255,575,257)
<u>\$ 5,471,379</u>	<u>\$ (6,759,040)</u>	<u>\$ 14,658,590</u>	<u>\$ (452,815)</u>	<u>\$ 2,966,488</u>	<u>\$ 98,800,500</u>	<u>\$ (143,086,537)</u>	<u>\$ (120,303,642)</u>

**North Carolina Department of Health and Human Services**  
**Balance Sheet - Governmental Funds**  
**Division of Central Administration**  
**June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit C-1**

	General Fund	Capital Projects Fund	Total Central Administration 2019	Total Central Administration 2018
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 155,718,531	\$ 5,768,809	\$ 161,487,340	\$ 135,832,285
Receivables:				
Accounts Receivable, Net (Note 4)	847		847	29,830
Intergovernmental Receivables	23,143,581		23,143,581	10,845,559
Due from Other Funds	65,804		65,804	84,053
Inventories	245,053		245,053	191,390
	<u>179,173,816</u>	<u>5,768,809</u>	<u>184,942,625</u>	<u>146,983,117</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Forward Funded State Aid	1,254,262	0	1,254,262	201,142
	<u>\$ 180,428,078</u>	<u>\$ 5,768,809</u>	<u>\$ 186,196,887</u>	<u>\$ 147,184,259</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 18,930,459	\$ 93,380	\$ 19,023,839	\$ 10,084,857
Intergovernmental Payables	133,753,369		133,753,369	114,347,866
Due to Other State Agencies and Funds	2,085,089		2,085,089	1,743,593
	<u>154,768,917</u>	<u>93,380</u>	<u>154,862,297</u>	<u>126,176,316</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	117	0	117	669
<b>FUND BALANCES</b>				
Nonspendable Inventories	245,053		245,053	191,390
Restricted for Health and Human Services	100,689		100,689	259
Committed to Health and Human Services	10,749,432	5,675,429	16,424,861	13,375,633
Assigned to Health and Human Services	3,970,660		3,970,660	2,780,330
Unassigned	10,593,210		10,593,210	4,659,662
	<u>25,659,044</u>	<u>5,675,429</u>	<u>31,334,473</u>	<u>21,007,274</u>
	<u>\$ 180,428,078</u>	<u>\$ 5,768,809</u>	<u>\$ 186,196,887</u>	<u>\$ 147,184,259</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, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit C-2**

	General Fund	Capital Projects Fund	Total Central Administration 2019	Total Central Administration 2018
<b>REVENUES</b>				
Federal Funds	\$ 180,714,406	\$ 0	\$ 180,714,406	\$ 132,257,798
Local Funds	525,887		525,887	334,655
Fees, Licenses, and Fines	863,802		863,802	779,826
Revenues from Other State Agencies (Note 12)	3,294,909	11,779	3,306,688	356,580
Miscellaneous Revenues	96,779		96,779	176,851
Total Revenues	<u>185,495,783</u>	<u>11,779</u>	<u>185,507,562</u>	<u>133,905,710</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	80,793,878		80,793,878	74,201,925
Contracted Personal Services	174,957,126		174,957,126	119,435,828
Supplies and Materials	1,197,203		1,197,203	1,172,584
Travel	649,918		649,918	566,940
Communication	1,708,161		1,708,161	1,507,141
Utilities	3,549,298		3,549,298	3,390,647
Data Processing Services	14,566,447		14,566,447	11,531,975
Other Services	1,013,877		1,013,877	905,339
Other Fixed Charges	19,604,273		19,604,273	8,859,651
Capital Outlay	10,542,693	1,545,583	12,088,276	10,283,134
Grants, State Aid, and Subsidies	37,770,814		37,770,814	39,900,647
Expenditures to Other State Agencies (Note 12)	3,700,000		3,700,000	4,750,000
Other Expenditures	3,507,827		3,507,827	2,902,493
Total Expenditures	<u>353,561,515</u>	<u>1,545,583</u>	<u>355,107,098</u>	<u>279,408,304</u>
Excess of Revenues Over (Under) Expenditures	<u>(168,065,732)</u>	<u>(1,533,804)</u>	<u>(169,599,536)</u>	<u>(145,502,594)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	137,477,426	6,475,000	143,952,426	120,854,029
Transfers In	46,829,933		46,829,933	21,277,507
Transfers Out	(12,403,745)		(12,403,745)	(13,546,909)
Transfers from State Reserve Fund	2,247,076		2,247,076	4,341,679
Transfers to State Reserve Fund	(699,030)		(699,030)	(2,247,076)
Other	75		75	75
Total Other Financing Sources	<u>173,451,735</u>	<u>6,475,000</u>	<u>179,926,735</u>	<u>130,679,305</u>
Net Change in Fund Balances	5,386,003	4,941,196	10,327,199	(14,823,289)
Fund Balances - Beginning of Year	<u>20,273,041</u>	<u>734,233</u>	<u>21,007,274</u>	<u>35,830,563</u>
Fund Balances - End of Year	<u>\$ 25,659,044</u>	<u>\$ 5,675,429</u>	<u>\$ 31,334,473</u>	<u>\$ 21,007,274</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 Health Benefits**  
**June 30, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit D-1**

	General Fund	
	2019	2018 (Restated)
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 50,380,859	\$ 43,728,882
Receivables:		
Accounts Receivable, Net (Note 4)	75,071,616	86,156,035
Intergovernmental Receivables	736,985,512	703,240,312
Due from Other Funds	1,528,535	1,320,908
Inventories	12,548	17,464
<b>Total Assets</b>	<b>863,979,070</b>	<b>834,463,601</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Forward Funded State Aid	911,477	206,349
<b>Total Assets and Deferred Outflows</b>	<b>\$ 864,890,547</b>	<b>\$ 834,669,950</b>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 18,148,424	\$ 10,624,006
Intergovernmental Payables	92,266,408	92,289,131
Medical Claims Payable (Note 7)	1,040,243,407	971,097,683
Due to Other State Agencies and Funds	3,791,219	179,153
Due to State of North Carolina Component Units	355,562	401
<b>Total Liabilities</b>	<b>1,154,805,020</b>	<b>1,074,190,374</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue	30,676,005	19
<b>FUND BALANCE</b>		
Nonspendable Inventories	12,548	17,464
Restricted for Health and Human Services	47,845,531	40,820,463
Committed to Health and Human Services		206,349
Unassigned	(368,448,557)	(280,564,719)
<b>Total Fund Balance</b>	<b>(320,590,478)</b>	<b>(239,520,443)</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balance</b>	<b>\$ 864,890,547</b>	<b>\$ 834,669,950</b>

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

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

**Division of Health Benefits**

**For the Fiscal Year Ended June 30, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit D-2**

	General Fund	
	2019	2018 (Restated)
<b>REVENUES</b>		
Federal Funds	\$ 9,296,040,833	\$ 9,124,595,727
Sales and Services	10,876	
Fees, Licenses, and Fines (Note 11)	158,843,287	154,364,955
Revenues from Other State Agencies		2,750,000
Miscellaneous Revenues	16,068,019	10,405,660
Total Revenues	<u>9,470,963,015</u>	<u>9,292,116,342</u>
<b>EXPENDITURES</b>		
Salaries and Benefits	37,495,250	34,163,892
Contracted Personal Services	159,540,309	160,587,945
Supplies and Materials	191,150	128,654
Travel	304,657	267,688
Communication	414,891	289,841
Data Processing Services	169,175	242,177
Other Services	1,000,509	658,007
Other Fixed Charges	337,071	288,060
Capital Outlay	1,106,460	428,816
Grants, State Aid, and Subsidies (Exhibit N-2)	12,728,567,562	12,455,550,732
Expenditures to Other State Agencies (Note 12)	182,629,400	174,523,355
Other Expenditures	828,494	900,718
Total Expenditures	<u>13,112,584,928</u>	<u>12,828,029,885</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,641,621,913)</u>	<u>(3,535,913,543)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	3,758,452,820	3,664,046,134
Transfers In	161,840,365	159,770,729
Transfers Out	(287,163,485)	(237,026,918)
Transfers from State Reserve Fund	78,607,454	119,019,633
Transfers to State Reserve Fund	(143,439,535)	(71,272,675)
Other	(7,745,741)	20,728,524
Total Other Financing Sources	<u>3,560,551,878</u>	<u>3,655,265,427</u>
Net Change in Fund Balance	(81,070,035)	119,351,884
Fund Balance - Beginning of Year, as Restated (Note 18)	<u>(239,520,443)</u>	<u>(358,872,327)</u>
Fund Balance - End of Year	<u>\$ (320,590,478)</u>	<u>\$ (239,520,443)</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, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit E-1**

	General Fund	Capital Projects Fund	Total Child Development 2019	Total Child Development 2018
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 0	\$ 86,498	\$ 86,498	\$ 274,931
Receivables:				
Accounts Receivable, Net (Note 4)	1,509,965		1,509,965	980,467
Intergovernmental Receivables	32,737,220		32,737,220	29,107,805
Inventories	14,617		14,617	12,598
Total Assets	<u>34,261,802</u>	<u>86,498</u>	<u>34,348,300</u>	<u>30,375,801</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Assets and Deferred Outflows	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 34,261,802</u>	<u>\$ 86,498</u>	<u>\$ 34,348,300</u>	<u>\$ 30,375,801</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 38,657,744	\$ 0	\$ 38,657,744	35,066,047
Intergovernmental Payables	396,409		396,409	5,262,690
Due to Other State Agencies and Funds	213,519		213,519	86,929
Due to State of North Carolina Component Units	138,400		138,400	
Total Liabilities	<u>39,406,072</u>	<u>0</u>	<u>39,406,072</u>	<u>40,415,666</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	<u>4,877</u>	<u>0</u>	<u>4,877</u>	<u>4,113</u>
<b>FUND BALANCES</b>				
Nonspendable Inventories	14,617		14,617	12,598
Restricted for Health and Human Services	1,505,088		1,505,088	689,992
Committed to Health and Human Services		86,498	86,498	203,322
Unassigned	<u>(6,668,852)</u>		<u>(6,668,852)</u>	<u>(10,949,890)</u>
Total Fund Balances	<u>(5,149,147)</u>	<u>86,498</u>	<u>(5,062,649)</u>	<u>(10,043,978)</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 34,261,802</u>	<u>\$ 86,498</u>	<u>\$ 34,348,300</u>	<u>\$ 30,375,801</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 Child Development and Early Education**

**For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit E-2**

	General Fund	Capital Projects Fund	Total Child Development 2019	Total Child Development 2018
<b>REVENUES</b>				
Federal Funds	\$ 464,031,628	\$ 0	\$ 464,031,628	\$ 355,842,301
Fees, Licenses, and Fines (Note 11)	2,163,475		2,163,475	2,062,563
Revenues from Other State Agencies (Note 12)	78,252,110		78,252,110	78,267,605
Miscellaneous Revenues	97,559		97,559	16,117
Total Revenues	<u>544,544,772</u>	<u>0</u>	<u>544,544,772</u>	<u>436,188,586</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	20,809,144		20,809,144	19,496,786
Contracted Personal Services	5,750,878		5,750,878	5,102,370
Supplies and Materials	112,946		112,946	130,860
Travel	460,979		460,979	434,010
Communication	330,727		330,727	209,352
Data Processing Services	25,340		25,340	8,664
Other Services	179,791		179,791	109,059
Other Fixed Charges	177,187		177,187	1,289,884
Capital Outlay	81,106	110,048	191,154	349,309
Grants, State Aid, and Subsidies (Exhibit N-3)	732,007,823		732,007,823	660,507,376
Other Expenditures:				
Scholarships	4,220,263		4,220,263	4,266,029
Other	608,142		608,142	353,621
Total Expenditures	<u>764,764,326</u>	<u>110,048</u>	<u>764,874,374</u>	<u>692,257,320</u>
Excess of Revenues Over (Under) Expenditures	<u>(220,219,554)</u>	<u>(110,048)</u>	<u>(220,329,602)</u>	<u>(256,068,734)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	228,529,231		228,529,231	266,457,423
Transfers In	38,759		38,759	
Transfers Out	(2,572,891)		(2,572,891)	(7,900,227)
Transfers from State Reserve Fund	2,755,404		2,755,404	
Transfers to State Reserve Fund	(3,439,572)		(3,439,572)	(2,755,404)
Total Other Financing Sources	<u>225,310,931</u>	<u>0</u>	<u>225,310,931</u>	<u>255,801,792</u>
Net Change in Fund Balances	5,091,377	(110,048)	4,981,329	(266,942)
Fund Balances - Beginning of Year	<u>(10,240,524)</u>	<u>196,546</u>	<u>(10,043,978)</u>	<u>(9,777,036)</u>
Fund Balances - End of Year	<u>\$ (5,149,147)</u>	<u>\$ 86,498</u>	<u>\$ (5,062,649)</u>	<u>\$ (10,043,978)</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 Health Service Regulation**  
**June 30, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit F-1**

	General Fund	
	2019	2018
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 35,839,094	\$ 32,966,717
Receivables:		
Accounts Receivable, Net (Note 4)	1,707,311	559,110
Intergovernmental Receivables	2,137,333	2,134,872
Inventories	6,425	6,974
Total Assets	<u>39,690,163</u>	<u>35,667,673</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Total Assets and Deferred Outflows	<u>0</u>	<u>0</u>
	<u>\$ 39,690,163</u>	<u>\$ 35,667,673</u>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 1,117,958	\$ 2,026,689
Intergovernmental Payables	830,309	175,455
Due to Other State Agencies and Funds	101,394	51,679
Due to State of North Carolina Component Units	64,324	291,818
Total Liabilities	<u>2,113,985</u>	<u>2,545,641</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue	<u>1,029,163</u>	<u>539,801</u>
<b>FUND BALANCE</b>		
Nonspendable Inventories	6,425	6,974
Restricted for Health and Human Services	31,316,007	27,730,072
Committed to Health and Human Services	5,081,227	5,235,464
Unassigned	143,356	(390,279)
Total Fund Balance	<u>36,547,015</u>	<u>32,582,231</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 39,690,163</u>	<u>\$ 35,667,673</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, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit F-2**

	General Fund	
	2019	2018
<b>REVENUES</b>		
Federal Funds	\$ 29,542,905	\$ 28,550,530
Local Funds	537,317	511,961
Sales and Services	376,467	515,081
Fees, Licenses, and Fines (Note 11)	18,267,646	18,932,370
Revenues from Other State Agencies (Note 12)	335,911	167,956
Miscellaneous Revenues	704,472	20,728
<b>Total Revenues</b>	<b>49,764,718</b>	<b>48,698,626</b>
<b>EXPENDITURES</b>		
Salaries and Benefits	44,164,396	43,356,793
Contracted Personal Services	3,936,888	3,137,427
Supplies and Materials	275,083	371,927
Travel	1,484,139	1,637,406
Communication	576,823	696,489
Utilities	3,267	3,216
Data Processing Services	1,250	18,182
Other Services	277,148	296,412
Other Fixed Charges	132,663	342,376
Capital Outlay	544,697	965,368
Grants, State Aid, and Subsidies	6,285,980	5,463,786
Expenditures to Other State Agencies (Note 12)	3,501,716	2,627,631
Other Expenditures	1,203,548	1,435,076
<b>Total Expenditures</b>	<b>62,387,598</b>	<b>60,352,089</b>
Excess of Revenues Over (Under) Expenditures	(12,622,880)	(11,653,463)
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	18,021,646	17,906,176
Transfers In	1,950,561	1,283,636
Transfers Out	(3,414,691)	(2,014,213)
Transfers from State Reserve Fund	1,020,005	482,370
Transfers to State Reserve Fund	(989,857)	(1,020,005)
<b>Total Other Financing Sources</b>	<b>16,587,664</b>	<b>16,637,964</b>
Net Change in Fund Balance	3,964,784	4,984,501
Fund Balance - Beginning of Year	32,582,231	27,597,730
Fund Balance - End of Year	<b>\$ 36,547,015</b>	<b>\$ 32,582,231</b>

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, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit G-1**

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Public Health 2019	Total Public Health 2018
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,295,975	\$ 3,121,466	\$ 0	\$ 6,417,441	\$ 2,925,896
Receivables:					
Accounts Receivable, Net (Note 4)	6,525,464	18,210		6,543,674	5,772,081
Intergovernmental Receivables	20,992,461			20,992,461	21,707,785
Due from Other Funds	1,061			1,061	
Inventories	4,081,820			4,081,820	3,693,884
<b>Total Assets</b>	<b>34,896,781</b>	<b>3,139,676</b>	<b>0</b>	<b>38,036,457</b>	<b>34,099,646</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Total Assets and Deferred Outflows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>\$ 34,896,781</b>	<b>\$ 3,139,676</b>	<b>\$ 0</b>	<b>\$ 38,036,457</b>	<b>\$ 34,099,646</b>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 16,460,264	\$ 959	\$ 60,079	\$ 16,521,302	\$ 24,414,838
Intergovernmental Payables	11,179,786			11,179,786	10,579,417
Medical Claims Payable (Note 7)	405,410			405,410	245,522
Due to Other State Agencies and Funds	450,638			450,638	310,385
Due to State of North Carolina Component Units	694,282			694,282	441,791
<b>Total Liabilities</b>	<b>29,190,380</b>	<b>959</b>	<b>60,079</b>	<b>29,251,418</b>	<b>35,991,953</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	3,313,660	0	0	3,313,660	684,342
<b>FUND BALANCES</b>					
Nonspendable Inventories	4,081,820			4,081,820	3,693,884
Restricted for Health and Human Services	2,724,657			2,724,657	1,226,467
Committed to Health and Human Services	698,910	3,138,717		3,837,627	2,937,212
Unassigned	(5,112,646)		(60,079)	(5,172,725)	(10,434,212)
<b>Total Fund Balances</b>	<b>2,392,741</b>	<b>3,138,717</b>	<b>(60,079)</b>	<b>5,471,379</b>	<b>(2,576,649)</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 34,896,781</b>	<b>\$ 3,139,676</b>	<b>\$ 0</b>	<b>\$ 38,036,457</b>	<b>\$ 34,099,646</b>

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Division of Public Health**  
**For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit G-2**

	<u>General Fund</u>	<u>Other Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Public Health 2019</u>	<u>Total Public Health 2018</u>
<b>REVENUES</b>					
Federal Funds	\$ 447,600,191	\$ 0	\$ 0	\$ 447,600,191	\$ 450,707,485
Local Funds	4,802,868			4,802,868	4,287,611
Sales and Services	1,302,042			1,302,042	1,391,041
Fees, Licenses, and Fines (Note 11)	23,956,119	632,120		24,588,239	16,266,850
Revenues from Other State Agencies (Note 12)	3,331,095		54,051	3,385,146	1,456,872
Miscellaneous Revenues:					
Rebates	68,360,893			68,360,893	70,267,100
Contributions, Gifts, and Grants	2,524,546			2,524,546	1,819,189
Other	908,593	2,150		910,743	1,063,976
<b>Total Revenues</b>	<u>552,786,347</u>	<u>634,270</u>	<u>54,051</u>	<u>553,474,668</u>	<u>547,260,124</u>
<b>EXPENDITURES</b>					
Salaries and Benefits	131,872,211	78,203		131,950,414	127,715,498
Contracted Personal Services	35,167,447	30,155		35,197,602	39,788,434
Supplies and Materials	7,814,393	5,672		7,820,065	8,703,374
Travel	2,110,758	5,553		2,116,311	2,135,064
Communication	1,554,320	1,382		1,555,702	2,418,645
Utilities	200,503			200,503	200,768
Data Processing Services	268,573			268,573	256,588
Other Services	3,372,519	7,849		3,380,368	4,261,657
Other Fixed Charges	4,106,406	1,183		4,107,589	2,790,821
Capital Outlay	4,912,430	17,603	102,155	5,032,188	3,528,513
Grants, State Aid, and Subsidies (Exhibit N-4)	500,233,463			500,233,463	511,307,850
Other Expenditures	8,370,766	1,044		8,371,810	9,715,036
<b>Total Expenditures</b>	<u>699,983,789</u>	<u>148,644</u>	<u>102,155</u>	<u>700,234,588</u>	<u>712,822,248</u>
Excess of Revenues Over (Under) Expenditures	<u>(147,197,442)</u>	<u>485,626</u>	<u>(48,104)</u>	<u>(146,759,920)</u>	<u>(165,562,124)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	152,096,605			152,096,605	144,363,837
Transfers In	15,463,339	167,938		15,631,277	14,442,991
Transfers Out	(14,688,640)			(14,688,640)	(6,527,794)
Transfers from State Reserve Fund	3,030,843			3,030,843	724,428
Transfers to State Reserve Fund	(1,282,905)			(1,282,905)	(3,030,843)
Other	20,768			20,768	37,978
<b>Total Other Financing Sources</b>	<u>154,640,010</u>	<u>167,938</u>	<u>0</u>	<u>154,807,948</u>	<u>150,010,597</u>
<b>Net Change in Fund Balances</b>	<u>7,442,568</u>	<u>653,564</u>	<u>(48,104)</u>	<u>8,048,028</u>	<u>(15,551,527)</u>
Fund Balances - Beginning 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>
Fund Balances - End of Year	<u>\$ 2,392,741</u>	<u>\$ 3,138,717</u>	<u>\$ (60,079)</u>	<u>\$ 5,471,379</u>	<u>\$ (2,576,649)</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, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit H-1**

	<b>General Fund</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Receivables:		
Intergovernmental Receivables	\$ 1,313,960	\$ 3,746,073
Inventories	4,927	4,397
Total Assets	<u>1,318,887</u>	<u>3,750,470</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Forward Funded State Aid	<u>37,858</u>	<u>41,409</u>
Total Assets and Deferred Outflows	<u>\$ 1,356,745</u>	<u>\$ 3,791,879</u>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 254,836	\$ 518,426
Intergovernmental Payables	7,831,572	6,920,839
Due to Other State Agencies and Funds	3,708	5,140
Due to State of North Carolina Component Units	<u>25,669</u>	<u>          </u>
Total Liabilities	<u>8,115,785</u>	<u>7,444,405</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>0</u>	<u>0</u>
<b>FUND BALANCE</b>		
Nonspendable Inventories	4,927	4,397
Committed to Health and Human Services	37,858	41,409
Unassigned	<u>(6,801,825)</u>	<u>(3,698,332)</u>
Total Fund Balance	<u>(6,759,040)</u>	<u>(3,652,526)</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 1,356,745</u>	<u>\$ 3,791,879</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 Aging and Adult Services**

**For the Fiscal Year Ended June 30, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit H-2**

	General Fund	
	2019	2018
<b>REVENUES</b>		
Federal Funds	\$ 55,688,605	\$ 52,582,949
Local Funds	10,429,425	9,584,333
Fees, Licenses, and Fines	11,239	26,657
Miscellaneous Revenues	96,156	86,110
Total Revenues	<u>66,225,425</u>	<u>62,280,049</u>
<b>EXPENDITURES</b>		
Salaries and Benefits	5,749,604	5,454,464
Contracted Personal Services	1,627,619	1,591,084
Supplies and Materials	38,063	29,100
Travel	126,360	130,830
Communication	36,388	36,110
Data Processing Services		2,135
Other Services	35,296	34,433
Other Fixed Charges	27,191	23,583
Capital Outlay	29,421	40,324
Grants, State Aid, and Subsidies	109,258,277	101,887,074
Other Expenditures	141,972	153,539
Total Expenditures	<u>117,070,191</u>	<u>109,382,676</u>
Excess of Revenues Over (Under) Expenditures	<u>(50,844,766)</u>	<u>(47,102,627)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	46,885,165	46,326,140
Transfers In	1,071,505	341,448
Transfers Out	(250,532)	(131,608)
Transfers from State Reserve Fund	647,294	41,409
Transfers to State Reserve Fund	(615,189)	(647,294)
Other	9	
Total Other Financing Sources	<u>47,738,252</u>	<u>45,930,095</u>
Net Change in Fund Balance	(3,106,514)	(1,172,532)
Fund Balance - Beginning of Year	<u>(3,652,526)</u>	<u>(2,479,994)</u>
Fund Balance - End of Year	<u>\$ (6,759,040)</u>	<u>\$ (3,652,526)</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 Services for the Blind/Deaf and Hard of Hearing**  
**June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit I-1**

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2019	Total Blind/Deaf Services 2018
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 0	\$ 723,706	\$ 14,703,607	\$ 15,427,313	\$ 17,517,230
Receivables:					
Accounts Receivable, Net (Note 4)	707	320	31,151	32,178	255,892
Intergovernmental Receivables	495,918			495,918	658,504
Due from Other Funds	120			120	30
Inventories	27,228			27,228	1,059
<b>Total Assets</b>	<b>523,973</b>	<b>724,026</b>	<b>14,734,758</b>	<b>15,982,757</b>	<b>18,432,715</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Assets and Deferred Outflows	<u>\$ 523,973</u>	<u>\$ 724,026</u>	<u>\$ 14,734,758</u>	<u>\$ 15,982,757</u>	<u>\$ 18,432,715</u>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 799,226	\$ 104,310	\$ 0	\$ 903,536	\$ 857,725
Intergovernmental Payables	56,096			56,096	52,995
Medical Claims Payable (Note 7)	183,065			183,065	205,201
Due to Other State Agencies and Funds	172,659			172,659	51,623
Due to Component Units	8,675			8,675	3,098
<b>Total Liabilities</b>	<b>1,219,721</b>	<b>104,310</b>	<b>0</b>	<b>1,324,031</b>	<b>1,170,642</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>136</b>	<b>0</b>	<b>0</b>	<b>136</b>	<b>0</b>
<b>FUND BALANCES</b>					
Nonspendable Inventories	27,228			27,228	1,059
Restricted for Health and Human Services		9,973		9,973	98,688
Committed to Health and Human Services		606,275	14,734,758	15,341,033	17,588,232
Assigned to Health and Human Services		3,468		3,468	
Unassigned	(723,112)			(723,112)	(425,906)
<b>Total Fund Balances</b>	<b>(695,884)</b>	<b>619,716</b>	<b>14,734,758</b>	<b>14,658,590</b>	<b>17,262,073</b>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 523,973</u>	<u>\$ 724,026</u>	<u>\$ 14,734,758</u>	<u>\$ 15,982,757</u>	<u>\$ 18,432,715</u>

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



**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Division of Services for the Blind/Deaf and Hard of Hearing**  
**For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit I-2**

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services 2019	Total Blind/Deaf Services 2018
<b>REVENUES</b>					
Federal Funds	\$ 16,546,151	\$ 847,195	\$ 0	\$ 17,393,346	\$ 16,207,258
Local Funds	631,446			631,446	623,757
Sales and Services	106,548	839,207		945,755	879,182
Fees, Licenses, and Fines (Note 11)			1,937,167	1,937,167	2,807,414
Revenues from Other State Agencies (Note 12)			8,374,256	8,374,256	10,235,892
Miscellaneous Revenues	469,790	2,388	310,991	783,169	391,276
Total Revenues	17,753,935	1,688,790	10,622,414	30,065,139	31,144,779
<b>EXPENDITURES</b>					
Salaries and Benefits	20,414,138			20,414,138	19,817,469
Contracted Personal Services	3,867,874	15,032		3,882,906	3,394,622
Supplies and Materials	346,002	65,913		411,915	293,424
Travel	696,406	36,177		732,583	730,717
Communication	340,799	263		341,062	328,202
Utilities	22,597			22,597	19,238
Data Processing Services		168		168	6,880
Other Services	166,291	442,352		608,643	590,506
Other Fixed Charges	94,715	3,669		98,384	75,019
Capital Outlay	404,271	657,603		1,061,874	849,768
Grants, State Aid, and Subsidies	10,546,546	70,000		10,616,546	10,023,153
Expenditures to Other State Agencies (Note 12)	9,504			9,504	
Other Expenditures	1,331,860	6,777		1,338,637	1,274,679
Total Expenditures	38,241,003	1,297,954	0	39,538,957	37,403,677
Excess of Revenues Over (Under) Expenditures	(20,487,068)	390,836	10,622,414	(9,473,818)	(6,258,898)
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	7,890,327			7,890,327	8,086,322
Transfers In	12,875,395	289,833	17	13,165,245	12,269,362
Transfers Out	(433,670)	(552,553)	(13,049,314)	(14,035,537)	(13,037,193)
Transfers from State Reserve Fund	79,062			79,062	
Transfers to State Reserve Fund	(270,666)			(270,666)	(79,062)
Other		41,904		41,904	54,518
Total Other Financing Sources (Uses)	20,140,448	(220,816)	(13,049,297)	6,870,335	7,293,947
Net Change in Fund Balances	(346,620)	170,020	(2,426,883)	(2,603,483)	1,035,049
Fund Balances - Beginning of Year	(349,264)	449,696	17,161,641	17,262,073	16,227,024
Fund Balances - End of Year	\$ (695,884)	\$ 619,716	\$ 14,734,758	\$ 14,658,590	\$ 17,262,073

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, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit J-1**

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation 2019	Total Vocational Rehabilitation 2018
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 14,841	\$ 34,825	\$ 39,621	\$ 89,287	\$ 1,415,344
Receivables:					
Accounts Receivable, Net (Note 4)	6,150			6,150	161,394
Intergovernmental Receivables	4,216,270	1,203,943		5,420,213	3,970,643
Due from Other Funds	22,255			22,255	27,587
Inventories	115,104	202,036		317,140	250,983
<b>Total Assets</b>	<b>4,374,620</b>	<b>1,440,804</b>	<b>39,621</b>	<b>5,855,045</b>	<b>5,825,951</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Total Assets and Deferred Outflows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>\$ 4,374,620</b>	<b>\$ 1,440,804</b>	<b>\$ 39,621</b>	<b>\$ 5,855,045</b>	<b>\$ 5,825,951</b>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 4,702,413	\$ 1,100,803	\$ 0	\$ 5,803,216	\$ 5,118,408
Intergovernmental Payables	16,023	19,340		35,363	210,347
Medical Claims Payable (Note 7)	332,514			332,514	313,107
Due to Other State Agencies and Funds	133,620	300		133,920	436,584
Due to Component Units	2,843			2,843	516
<b>Total Liabilities</b>	<b>5,187,413</b>	<b>1,120,443</b>	<b>0</b>	<b>6,307,856</b>	<b>6,078,962</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	4	0	0	4	269
<b>FUND BALANCES</b>					
Nonspendable Inventories	115,104	202,036		317,140	250,983
Restricted for Health and Human Services	14,841	118,325		133,166	72,529
Committed to Health and Human Services	21,551		39,621	61,172	772,085
Unassigned	(964,293)			(964,293)	(1,348,877)
<b>Total Fund Balances</b>	<b>(812,797)</b>	<b>320,361</b>	<b>39,621</b>	<b>(452,815)</b>	<b>(253,280)</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 4,374,620</b>	<b>\$ 1,440,804</b>	<b>\$ 39,621</b>	<b>\$ 5,855,045</b>	<b>\$ 5,825,951</b>

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

**North Carolina Department of Health and Human Services**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Division of Vocational Rehabilitation**  
**For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit J-2**

	<u>General Fund</u>	<u>Disability Determination Fund</u>	<u>Capital Projects Fund</u>	<u>Total Vocational Rehabilitation 2019</u>	<u>Total Vocational Rehabilitation 2018</u>
<b>REVENUES</b>					
Federal Funds	\$ 87,731,515	\$ 57,791,937	\$ 0	\$ 145,523,452	\$ 147,602,337
Local Funds	2,593,792			2,593,792	2,836,069
Sales and Services	373,754			373,754	443,767
Miscellaneous Revenues	7,417,302	7,208		7,424,510	2,323,827
Total Revenues	<u>98,116,363</u>	<u>57,799,145</u>	<u>0</u>	<u>155,915,508</u>	<u>153,206,000</u>
<b>EXPENDITURES</b>					
Salaries and Benefits	56,349,449	37,627,416		93,976,865	92,675,477
Contracted Personal Services	2,475,143	18,772,705		21,247,848	21,589,737
Supplies and Materials	802,494	333,436		1,135,930	924,084
Travel	1,090,906	39,932		1,130,838	1,142,519
Communication	1,218,667	318,963		1,537,630	1,400,103
Utilities	411,533			411,533	384,331
Data Processing Services					12,610
Other Services	529,851	374,119		903,970	885,554
Other Fixed Charges	204,932	444,305		649,237	623,705
Capital Outlay	568,660	50,855	456,286	1,075,801	3,456,763
Grants, State Aid, and Subsidies	65,504,757	213,866		65,718,623	61,274,599
Expenditures to Other State Agencies (Note 12)	39,996			39,996	698,938
Other Expenditures	4,464,833	2,332,884		6,797,717	7,149,257
Total Expenditures	<u>133,661,221</u>	<u>60,508,481</u>	<u>456,286</u>	<u>194,625,988</u>	<u>192,217,677</u>
Excess of Revenues Over (Under) Expenditures	<u>(35,544,858)</u>	<u>(2,709,336)</u>	<u>(456,286)</u>	<u>(38,710,480)</u>	<u>(39,011,677)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	38,677,483			38,677,483	37,120,411
Transfers In	138,655	2,842,149		2,980,804	2,707,934
Transfers Out	(2,463,107)		(272,128)	(2,735,235)	(678,818)
Transfers to State Reserve Fund	(417,415)			(417,415)	
Other	5,308			5,308	4,157
Total Other Financing Sources (Uses)	<u>35,940,924</u>	<u>2,842,149</u>	<u>(272,128)</u>	<u>38,510,945</u>	<u>39,153,684</u>
Net Change in Fund Balances	396,066	132,813	(728,414)	(199,535)	142,007
Fund Balances - Beginning of Year	<u>(1,208,863)</u>	<u>187,548</u>	<u>768,035</u>	<u>(253,280)</u>	<u>(395,287)</u>
Fund Balances - End of Year	<u>\$ (812,797)</u>	<u>\$ 320,361</u>	<u>\$ 39,621</u>	<u>\$ (452,815)</u>	<u>\$ (253,280)</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, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit K-1**

	<b>General Fund</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,173,092	\$ 3,083,642
Receivables:		
Accounts Receivable, Net (Note 4)	6,592,388	5,817,107
Intergovernmental Receivables	80,185,457	82,041,240
Due from Other Funds	206,584	61,685
Inventories	30,018	31,441
	<u>90,187,539</u>	<u>91,035,115</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows	<u>\$ 90,187,539</u>	<u>\$ 91,035,115</u>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 5,744,834	\$ 4,924,091
Intergovernmental Payables	80,882,853	84,717,264
Due to Other State Agencies and Funds	48,592	56,334
Due to State of North Carolina Component Units	368,865	68,622
	<u>87,045,144</u>	<u>89,766,311</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue	<u>175,907</u>	<u>305,003</u>
<b>FUND BALANCE</b>		
Nonspendable Inventories	30,018	31,441
Restricted for Health and Human Services	1,811,972	1,494,001
Committed to Health and Human Services	1,059,250	1,344,079
Unassigned	65,248	(1,905,720)
	<u>2,966,488</u>	<u>963,801</u>
Total Fund Balance	<u>2,966,488</u>	<u>963,801</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 90,187,539</u>	<u>\$ 91,035,115</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 Social Services**

**For the Fiscal Year Ended June 30, 2019 (With Comparative Amounts for June 30, 2018)**

**Exhibit K-2**

	General Fund	
	2019	2018
<b>REVENUES</b>		
Federal Funds	\$ 2,905,396,839	\$ 2,854,504,341
Local Funds	107,872,352	110,336,215
Fees, Licenses, and Fines	325,023	361,317
Revenues from Other State Agencies (Note 12)	2,269,270	19,515
Miscellaneous Revenues	7,667,561	12,129,357
Total Revenues	<u>3,023,531,045</u>	<u>2,977,350,745</u>
<b>EXPENDITURES</b>		
Salaries and Benefits	25,446,361	26,914,620
Contracted Personal Services	16,856,522	15,377,525
Supplies and Materials	146,994	152,553
Travel	640,397	863,138
Communication	440,442	713,443
Utilities	259	229
Data Processing Services	146,864	134,060
Other Services	6,106,015	5,544,082
Other Fixed Charges	1,858,184	217,557
Capital Outlay	337,233	239,501
Grants, State Aid, and Subsidies (Exhibit N-5)	3,169,117,716	3,115,356,903
Expenditures to Other State Agencies (Note 12)	3,430,521	433,176
Other Expenditures	548,768	684,581
Total Expenditures	<u>3,225,076,276</u>	<u>3,166,631,368</u>
Excess of Revenues Over (Under) Expenditures	<u>(201,545,231)</u>	<u>(189,280,623)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
State Appropriations	203,990,680	194,627,177
Transfers In	11,025,211	9,424,946
Transfers Out	(11,238,247)	(9,721,752)
Transfers from State Reserve Fund	3,321,357	1,228,115
Transfers to State Reserve Fund	(3,551,083)	(3,321,357)
Total Other Financing Sources	<u>203,547,918</u>	<u>192,237,129</u>
Net Change in Fund Balance	2,002,687	2,956,506
Fund Balance - Beginning of Year	963,801	(1,992,705)
Fund Balance - End of Year	<u>\$ 2,966,488</u>	<u>\$ 963,801</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 Mental Health/Developmental Disabilities and Substance Abuse Services**  
**June 30, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit L-1**

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2019	Total Mental Health 2018
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 0	\$ 65,168,396	\$ 17,752,861	\$ 82,921,257	\$ 67,269,285
Receivables:					
Accounts Receivable, Net (Note 4)	28,832,811	367,529		29,200,340	31,815,746
Intergovernmental Receivables	12,867,559			12,867,559	8,440,863
Due from Other Funds	3,594,823	56,236		3,651,059	35,181
Inventories	5,243,447	26,988		5,270,435	5,145,747
Total Assets	<u>50,538,640</u>	<u>65,619,149</u>	<u>17,752,861</u>	<u>133,910,650</u>	<u>112,706,822</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Forward Funded State Aid	5,092,046	0	0	5,092,046	3,512,072
Total Assets and Deferred Outflows	<u>\$ 55,630,686</u>	<u>\$ 65,619,149</u>	<u>\$ 17,752,861</u>	<u>\$ 139,002,696</u>	<u>\$ 116,218,894</u>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Liabilities:					
Accounts Payable	\$ 7,939,021	\$ 119,986	\$ 8,534,411	\$ 16,593,418	\$ 23,897,745
Intergovernmental Payables	356,976			356,976	930,737
Medical Claims Payable (Note 7)	8,450,395			8,450,395	10,522,255
Due to Other State Agencies and Funds	3,829,673			3,829,673	3,942,453
Due to State of North Carolina Component Units	1,434,827			1,434,827	484,341
Other Liabilities					5,550
Total Liabilities	<u>22,010,892</u>	<u>119,986</u>	<u>8,534,411</u>	<u>30,665,289</u>	<u>39,783,081</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	9,536,907	0	0	9,536,907	12,507,958
<b>FUND BALANCES</b>					
Nonspendable Inventories	5,243,447	26,988		5,270,435	5,145,747
Restricted for Health and Human Services	147,573	898,621		1,046,194	1,295,391
Committed to Health and Human Services	4,944,473	63,106,550	16,031,276	84,082,299	65,510,401
Assigned to Health and Human Services		1,467,004		1,467,004	1,392,528
Unassigned	13,747,394		(6,812,826)	6,934,568	(9,416,212)
Total Fund Balances	<u>24,082,887</u>	<u>65,499,163</u>	<u>9,218,450</u>	<u>98,800,500</u>	<u>63,927,855</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 55,630,686</u>	<u>\$ 65,619,149</u>	<u>\$ 17,752,861</u>	<u>\$ 139,002,696</u>	<u>\$ 116,218,894</u>

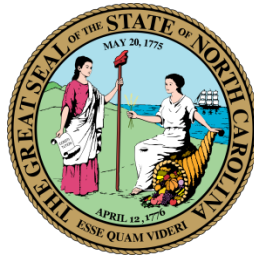
The accompanying notes to the financial statements are an integral part of this statement.

**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, 2019 (With Comparative Totals for June 30, 2018)**

**Exhibit L-2**

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health 2019	Total Mental Health 2018
<b>REVENUES</b>					
Federal Funds	\$ 488,721,311	\$ 467,734	\$ 0	\$ 489,189,045	\$ 487,009,239
Local Funds	2,160,694			2,160,694	2,135,150
Sales and Services		1,459,983		1,459,983	1,480,442
Net Patient Service Revenue (Note 10)	45,282,191			45,282,191	50,441,005
Fees, Licenses, and Fines (Note 11)	595,560	103		595,663	662,968
Revenues from Other State Agencies (Note 12)	5,389,920	44,249,758	3,821,671	53,461,349	18,690,974
Miscellaneous Revenues	8,555,267	380,840		8,936,107	3,448,176
<b>Total Revenues</b>	<b>550,704,943</b>	<b>46,558,418</b>	<b>3,821,671</b>	<b>601,085,032</b>	<b>563,867,954</b>
<b>EXPENDITURES</b>					
Salaries and Benefits	702,036,480	412,195		702,448,675	661,604,037
Contracted Personal Services	62,757,626	914,298		63,671,924	63,678,593
Supplies and Materials	43,153,771	1,264,713		44,418,484	42,305,925
Travel	544,597	11,027		555,624	504,461
Communication	2,304,871	52,901		2,357,772	2,552,270
Utilities	12,511,846	14,234		12,526,080	12,497,456
Data Processing Services	565,733			565,733	5,866
Other Services	2,045,520	100,370		2,145,890	4,250,878
Other Fixed Charges	5,538,608	3,751		5,542,359	4,884,767
Capital Outlay	15,796,665	103,857	20,560,025	36,460,547	28,978,619
Grants, State Aid, and Subsidies (Exhibit N-6)	460,149,850	7,640,294		467,790,144	436,119,550
Expenditures to Other State Agencies (Note 12)		10,000,000		10,000,000	180,000
Other Expenditures	4,697,021	117,377		4,814,398	12,746,347
<b>Total Expenditures</b>	<b>1,312,102,588</b>	<b>20,635,017</b>	<b>20,560,025</b>	<b>1,353,297,630</b>	<b>1,270,308,769</b>
Excess of Revenues Over (Under) Expenditures	(761,397,645)	25,923,401	(16,738,354)	(752,212,598)	(706,440,815)
<b>OTHER FINANCING SOURCES (USES)</b>					
State Appropriations	680,599,505			680,599,505	687,357,387
Transfers In	260,122,572	10,121,878	3,110,500	273,354,950	241,804,724
Transfers Out	(174,069,577)	(2,477,658)	(2,838,372)	(179,385,607)	(172,737,845)
Transfers from State Reserve Fund	63,825,137			63,825,137	51,699,493
Transfers to State Reserve Fund	(54,353,535)			(54,353,535)	(63,825,137)
Other	3,044,793			3,044,793	758,151
<b>Total Other Financing Sources</b>	<b>779,168,895</b>	<b>7,644,220</b>	<b>272,128</b>	<b>787,085,243</b>	<b>745,056,773</b>
Net Change in Fund Balances	17,771,250	33,567,621	(16,466,226)	34,872,645	38,615,958
Fund Balances - Beginning of Year	6,311,637	31,931,542	25,684,676	63,927,855	25,311,897
Fund Balances - End of Year	<u>\$ 24,082,887</u>	<u>\$ 65,499,163</u>	<u>\$ 9,218,450</u>	<u>\$ 98,800,500</u>	<u>\$ 63,927,855</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.

**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 and has replaced the former Division of 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 the 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.

- 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's financial statements consist of the following governmental funds:

**General Fund** - This fund is the Department's only major fund and serves as the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Special Revenue Funds** - These 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. The majority of the activity represents disability determination services for Social Security and Medicaid disability claims and the dual party relay system which helps hearing or speech-impaired individuals communicate via the telephone.

**Capital Projects Fund** - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, and is primarily funded by state appropriations and the State's issuance of debt. Specific projects are identified in the State's budget and approved by the legislature.

- 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 (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.

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 federal programs and patient 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 the Governor's role as the Director of the Budget to 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. Transfers from/to State Reserve Fund** - These transfers are for funds obligated in the current year, but not spent at year-end, that will be carried forward to the next fiscal year. The Department must obtain authorization from the Office of State Budget and Management (OSBM) to carry forward funds. At year-end, these funds are transferred to the State Reserve Fund and held by the North Carolina Office of the State Controller until approval is granted from OSBM to return the funds to the Department in the next fiscal year.
- M. Patient Service Revenue** - For the Division of Mental Health, patient service revenue 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 Health

Benefits, 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 Health Benefits, 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.

- N. 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, every agency of the State and certain component units are required by North Carolina General Statute 147-77 to deposit moneys 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; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

At June 30, 2019, the Balance Sheet reported cash and cash equivalents of \$355,822,181, 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 1.3 years as of June 30, 2019. 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/> 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, 2019. 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 \$355,822,181 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, 2019 were as follows:

	Gross Receivable	Less Allowance for Doubtful Accounts	Net Receivable
<b>Accounts Receivable:</b>			
Central Administration	\$ 65,609	\$ 64,762	\$ 847
Health Benefits	176,655,526	101,583,910	75,071,616
Child Development	1,526,394	16,429	1,509,965
Health Service Regulation	3,720,018	2,012,707	1,707,311
Public Health	7,740,023	1,196,349	6,543,674
Blind/Deaf Services	33,614	1,436	32,178
Vocational Rehabilitation	18,871	12,721	6,150
Social Services	49,476,917	42,884,529	6,592,388
Mental Health	219,188,416	189,988,076	29,200,340
<b>Total Accounts Receivable</b>	<u>\$ 458,425,388</u>	<u>\$ 337,760,919</u>	<u>\$ 120,664,469</u>

For the Division of Health Benefits, 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, 2019 were as follows:

	Amount
<b>Intergovernmental Receivables:</b>	
Due from Federal Agencies:	
Department of Health and Human Services	\$ 873,689,596
Department of Agriculture	28,114,918
Department of Education	8,523,693
Social Security Administration	4,178,966
Other	748,359
Due from County and Local Agencies	<u>1,023,682</u>
<b>Total Intergovernmental Receivables</b>	<u>\$ 916,279,214</u>

**NOTE 5 - CAPITAL ASSETS**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

A summary of changes in capital assets for the year ended June 30, 2019 is presented as follows:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>
Capital Assets, Nondepreciable:				
Land	\$ 1,105,552	\$ 0	\$ 0	\$ 1,105,552
Construction in Progress	161,805,609	20,259,531	2,361,165	179,703,975
Computer Software in Development	534,454,779	97,874,488		632,329,267
<b>Total Capital Assets, Nondepreciable</b>	<b>697,365,940</b>	<b>118,134,019</b>	<b>2,361,165</b>	<b>813,138,794</b>
Capital Assets, Depreciable:				
Buildings	610,098,895	1,579,042	5,743,687	605,934,250
Machinery and Equipment	153,053,893	10,771,168	4,329,878	159,495,183
General Infrastructure	87,403,492	3,498,756	243,929	90,658,319
Computer Software	291,583,685	7,343,709		298,927,394
<b>Total Capital Assets, Depreciable</b>	<b>1,142,139,965</b>	<b>23,192,675</b>	<b>10,317,494</b>	<b>1,155,015,146</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	165,626,436	10,247,805	352,565	175,521,676
Machinery and Equipment	63,754,588	7,721,557	3,143,361	68,332,784
General Infrastructure	30,091,430	1,899,245	135,902	31,854,773
Computer Software	46,141,930	13,448,910		59,590,840
<b>Total Accumulated Depreciation/Amortization</b>	<b>305,614,384</b>	<b>33,317,517</b>	<b>3,631,828</b>	<b>335,300,073</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>836,525,581</b>	<b>(10,124,842)</b>	<b>6,685,666</b>	<b>819,715,073</b>
<b>Capital Assets, Net</b>	<b>\$ 1,533,891,521</b>	<b>\$ 108,009,177</b>	<b>\$ 9,046,831</b>	<b>\$ 1,632,853,867</b>

**NOTE 6 - INTERGOVERNMENTAL PAYABLES**

Intergovernmental payables include amounts due to federal agencies and North Carolina counties, primarily for administration of Department programs. Intergovernmental payables at June 30, 2019 were as follows:

	<u>Amount</u>
Intergovernmental Payables:	
Due to Federal Agencies:	
Department of Health and Human Services	\$ 207,146,982
Department of Agriculture	7,099,656
Department of Education	2,094,459
Social Security Administration	1,026,864
Other	12,025
Due to Local Governments	<u>110,209,155</u>
<b>Total Intergovernmental Payables</b>	<b><u>\$ 327,589,141</u></b>

**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 2018 *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 2018 *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, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Net Pension Liability	\$ 380,313,626	\$ 103,216,779	\$ 0	\$ 483,530,405	\$ 0
Net Other Postemployment Benefits Liability	1,361,296,816		176,401,981	1,184,894,835	
Compensated Absences	90,370,618	76,452,681	60,225,649	106,597,650	9,572,472
Workers' Compensation	132,863,263	14,142	8,524,174	124,353,231	20,000,000
<b>Total Long-Term Liabilities</b>	<b>\$ 1,964,844,323</b>	<b>\$ 179,683,602</b>	<b>\$ 245,151,804</b>	<b>\$ 1,899,376,121</b>	<b>\$ 29,572,472</b>

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.

**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, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 14,225,338
2021	11,926,541
2022	9,129,956
2023	7,707,526
2024	6,526,479
2025-2029	<u>4,814,275</u>
Total Minimum Lease Payments	<u>\$ 54,330,115</u>

Rental expense for all operating leases during the year was \$19,187,524.

**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 Health Benefits receives the Medicaid reimbursements and transfers the funds to the Division of Mental Health. Such Medicaid funding is eliminated at the Division of Health Benefits 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

## NOTES TO THE FINANCIAL STATEMENTS

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 Health Benefits based on the number of patients enrolled. The MCOs reimburse the Facilities for patient services. Such Medicaid funding is eliminated at the Division of Health Benefits and recorded at the Division of Mental Health where the charges for services originated.

A summary of the Division of Mental Health's net patient service revenue for the year ended June 30, 2019 is presented as follows:

	<u>Amount</u>
Gross Patient Service Revenue	\$ 796,293,813
Deduct:	
Contractual Adjustments:	
Contractual Allowances	27,363,473
Disproportionate Share Hospital	(161,840,405)
Bad Debt	303,478,956
Third Party Reimbursement Programs:	
Federal Funds - State Medicaid Program	181,296,171
Federal Funds - Managed Care Organizations	209,581,475
Transfers - Non-Federal Share from DHB	191,131,952
<b>Net Patient Service Revenue</b>	<b><u>\$ 45,282,191</u></b>

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

Fees, licenses, and fines for the fiscal year ended June 30, 2019 were as follows:

	Health Benefits	Child Development	Health Service Regulation	Public Health	Blind/Deaf Services	Mental Health	Other Divisions	Total
Business License Fees	\$ 0	\$ 1,100,412	\$ 8,751,678	\$ 4,903,326	\$ 0	\$ 594,896	\$ 0	\$ 15,350,312
Non-Business Permit License Fees				2,592,776			325,023	2,917,799
Certification Fees			131,211	508,150				639,361
Inspection and Examination Fees				2,569,546				2,569,546
Fines, Penalties, and Assessment Fees	577,950	3,500	5,661,671	104,500		81		6,347,702
Registration Fees		96,271	110,983	6,000			11,239	224,493
Other Licenses, Fees, and Permits		911,226	4,189,848	13,989,035	1,937,167	1,224		21,028,500
Cost Recoveries	123,343,951							123,343,951
Intermediate Care Facility Assessments	28,689,440							28,689,440
Provider Enrollment Fees	6,231,946							6,231,946
Miscellaneous		55,566	6,362				863,802	925,730
Civil Fines and Penalties - Transfers		(3,500)	(584,107)	(85,094)		(538)		(673,239)
<b>Total Fees, Licenses, and Fines</b>	<b><u>\$ 158,843,287</u></b>	<b><u>\$ 2,163,475</u></b>	<b><u>\$ 18,267,646</u></b>	<b><u>\$ 24,588,239</u></b>	<b><u>\$ 1,937,167</u></b>	<b><u>\$ 595,663</u></b>	<b><u>\$ 1,200,064</u></b>	<b><u>\$ 207,595,541</u></b>

**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, 2019 are as follows:

Revenues from Other State Agencies

Other State Agencies	Central Administration	Child Development	Health Service Regulation	Public Health	Bind/Deaf Services	Social Services	Mental Health	Total
Office of State Controller (State General Fund)	\$ 2,794,909	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,794,909
Office of State Budget and Management	11,779			54,051			47,071,429	47,137,259
Department of Public Safety	500,000		335,911	2,000,000		2,250,775	5,000,000	10,086,686
Department of Transportation				583,092		18,495		601,587
Administrative Office of the Courts				748,003				748,003
Department of Information Technology					8,374,256			8,374,256
Department of Public Instruction							389,920	389,920
NC Education Lottery		78,252,110					1,000,000	79,252,110
<b>Total Revenues from Other State Agencies</b>	<b>\$ 3,306,688</b>	<b>\$ 78,252,110</b>	<b>\$ 335,911</b>	<b>\$ 3,385,146</b>	<b>\$ 8,374,256</b>	<b>\$ 2,269,270</b>	<b>\$ 53,461,349</b>	<b>\$ 149,384,730</b>

Expenditures to Other State Agencies

Other State Agencies	Central Administration	Health Benefits	Health Service Regulation	Bind/Deaf Services	Vocational Rehabilitation	Social Services	Mental Health	Total
Office of State Controller (State General Fund)	\$ 0	\$ 163,300,000	\$ 3,501,716	\$ 0	\$ 0	\$ 0	\$ 0	\$ 166,801,716
Office of State Budget and Management						3,430,521		3,430,521
Department of Commerce				9,504	39,996			49,500
Department of Information Technology	2,700,000	4,119,192						6,819,192
Department of Administration	1,000,000							1,000,000
Department of Public Instruction		15,210,208					10,000,000	25,210,208
<b>Total Expenditures to Other State Agencies</b>	<b>\$ 3,700,000</b>	<b>\$ 182,629,400</b>	<b>\$ 3,501,716</b>	<b>\$ 9,504</b>	<b>\$ 39,996</b>	<b>\$ 3,430,521</b>	<b>\$ 10,000,000</b>	<b>\$ 203,311,137</b>

**NOTE 13 - INTERFUND TRANSFERS**

Transfers in/out of other funds for the fiscal year ended June 30, 2019 consisted of the following:

Transfers Out	Transfers In			Total
	General Fund	Special Revenue Funds	Capital Projects Fund	
General Fund	\$ 495,688,498	\$ 13,010,087	\$ 0	\$ 508,698,585
Special Revenue Funds	15,667,797	411,728		16,079,525
Capital Projects Fund			3,110,500	3,110,500
<b>Total</b>	<b>\$ 511,356,295</b>	<b>\$ 13,421,815</b>	<b>\$ 3,110,500</b>	<b>\$ 527,888,610</b>

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

authorizations, and (3) reflect reversions of State funds from other funds to the General Fund in accordance with Office of State Budget and Management or legislative requirements.

Intrafund transfers have been included in the amounts above. These were not eliminated due to the user interest in transfers at the division level. Intrafund transfers were \$495,688,498 for General Fund, \$411,728 for Special Revenue Funds, and \$3,110,500 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.

### 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, 2019 was 12.29% of covered payroll. Employee contributions to the pension plan were \$49,790,977, and the Department's contributions were \$101,988,518 for the year ended June 30, 2019.

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 2018 *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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*Methods Used to Value TSERS Investments:* 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 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 2018 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2019, the Department's proportionate share of the collective net pension liability was \$483,530,405. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. 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, 2018, the Department's proportion was 4.86%, which was an increase of 0.07 from its proportion measured as of June 30, 2017, which was 4.79%.

*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	12/31/2017
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

\* 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 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 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, 2017 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, 2018 (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 rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

*Discount Rate:* The discount rate used to measure the total pension liability was lowered from 7.20% to 7.00% for the December 31, 2017 valuation. The 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, 2018 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 922,174,428	\$ 483,530,405	\$ 115,464,630

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2019, the Department’s proportionate

share of the collective pension expense was \$117,561,818. At June 30, 2019, the Department's proportionate share of 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	\$ 35,288,371	\$ 4,852,551
Changes of Assumptions	97,032,116	
Net Difference Between Projected and Actual Earnings on Plan Investments	46,080,531	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	14,182,054	105,624
Contributions Subsequent to the Measurement Date	101,988,518	
<b>Total</b>	<b>\$ 294,571,590</b>	<b>\$ 4,958,175</b>

The Department's deferred outflows of resources related to contributions subsequent to the measurement date of \$101,988,518 will represent a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as 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
2020	\$ 108,051,871
2021	69,345,950
2022	11,073,246
2023	(846,170)
<b>Total</b>	<b>\$ 187,624,897</b>

**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 2018 *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. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the 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 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 2018 *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 North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina 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 North Carolina 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 North Carolina General Assembly in the Appropriations Bill. The Department's contractually-required contribution rate for the year ended June 30, 2019 was 6.27% of covered payroll. The Department's contributions to the RHBF were \$52,031,571 the year ended June 30, 2019.

## 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 North Carolina General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the year ended June 30, 2019 was 0.14% of covered payroll. The



Department's contributions to DIPNC were \$1,161,789 for the year ended June 30, 2019.

**C. Net OPEB Liability (Asset)**

*Net OPEB Liability:* At June 30, 2019, the Department's proportionate share of the collective net OPEB liability for RHBF was \$1,184,894,835. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. 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, 2018, the Department's proportion was 4.16%, which was an increase of 0.01 from its proportion measured as of June 30, 2017, which was 4.15%.

*Net OPEB Asset:* At June 30, 2019, the Department's proportionate share of the collective net OPEB asset for DIPNC was \$1,273,000. The net OPEB asset was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. 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, 2018, the Department's proportion was 4.19%, which was an increase of 0.01 from its proportion measured as of June 30, 2017, which was 4.18%.

*Actuarial Assumptions:* The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2017, 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, 2018 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2017	12/31/2017
Inflation	3.00%	3.00%
	8.10% grading down to 3.50% depending on employee class	3.50% - 8.10%
Salary Increases*	7.00%	3.75%
Investment Rate of Return**	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Medical	7.25% grading down to 5.00% by 2027	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	3.00%	N/A
Healthcare Cost Trend Rate - Administrative		

\* 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, 2018.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2018 (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, 2018 is 1.5%.

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, 2017 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 3.87%. 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 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

The discount rate used to measure the total OPEB liability 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 liability.

*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 (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
RHBF	\$	1,399,965,243	\$ 1,184,894,835	\$ 1,012,492,882
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(975,411)	\$ (1,273,000)	\$ (1,558,478)

*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 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	\$	977,507,393	\$ 1,184,894,835	\$ 1,457,153,933
		1% Decrease (5.50 % grading down to 4.00% in 2024)	Current Healthcare Cost Trend Rates (6.50% grading down to 5.0% in 2024)	1% Increase (7.50% grading down to 6.00% in 2024)
DIPNC Net OPEB Asset	\$	(1,276,688)	\$ (1,273,000)	\$ (1,269,522)

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:* For the year ended June 30, 2019, the Department's proportionate share of the collective OPEB expense was \$1,663,208 for RHBF and \$183,742 for DIPNC. At June 30, 2019, the Department's proportionate share of the 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	\$ 2,220,627	\$ 2,220,627
Changes of Assumptions		240,384	240,384
Net Difference Between Projected and Actual Earnings on Plan Investments	127,429	991,420	1,118,849
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	58,960,222	278,226	59,238,448
Contributions Subsequent to the Measurement Date	52,031,571	1,161,789	53,193,360
<b>Total</b>	<b>\$ 111,119,222</b>	<b>\$ 4,892,446</b>	<b>\$ 116,011,668</b>

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 81,028,319	\$ 0	\$ 81,028,319
Changes of Assumptions	513,323,702		513,323,702
<b>Total</b>	<b>\$ 594,352,021</b>	<b>\$ 0</b>	<b>\$ 594,352,021</b>

The Department's 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, 2020. 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:

Year Ended June 30:	RHBF	DIPNC
2020	\$ (123,438,202)	\$ 953,299
2021	(123,438,202)	953,173
2022	(123,438,202)	632,483
2023	(123,311,502)	492,305
2024	(41,638,262)	349,654
Thereafter		349,743
<b>Total</b>	<b>\$ (535,264,370)</b>	<b>\$ 3,730,657</b>

**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 \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The Department pays the premium, based on a composite rate, directly to the private insurer.

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

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

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

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

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

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

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health/Developmental Disabilities and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department. The extent of coverage is a maximum of \$1,000,000 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, 2019, the Department is unable to estimate what liabilities may result from such audits.

On June 17, 2019, the Centers for Medicare and Medicaid Services (CMS) issued a financial management review report concluding that the Department did not adequately support billings of \$99.4 million related to case management fees. The Department disagrees with this finding. The Department has retained a private firm to assist in the review and response to CMS. If litigation results, the Department will make a determination at that time on representation.

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 claims for school-based Medicaid administrative costs for federal fiscal years 2010 through 2012. Based on the audit, OIG recommended that the Department refund \$53.8 million to the federal government for non-compliant 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, 2019, the Department has not received a demand for recovery from CMS.



An audit conducted by the 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, 2019, the Department has not received a demand for recovery from CMS.

The OIG contends that the Division of Health Benefits overstated the number of children enrolled in Medicaid, resulting in an overpayment of \$34.8 million in unallowable bonus payments under the Health Insurance Program Reauthorization Act. The Department has appealed this claim, as have other states. The Department is represented by the North Carolina Attorney General's Office in this matter, but also has retained outside representation. As of June 30, 2019, 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.

On June 30, 2016, Archer Western Contractors, LLC (Archer Western) filed suit against the Department, along with the State of North Carolina, the North Carolina Department of Administration, and the State Construction Office (collectively, the State Defendants), regarding the construction of the Department's \$93.3 million psychiatric hospital in eastern North Carolina called the New Cherry Hospital. Archer Western was contracted to construct the new psychiatric hospital by November 29, 2012. The Department completed all remaining work needed for State Construction Office final acceptance on June 22, 2016. The total delay in completing the project was 1,301 days. In its suit, Archer Western argues that the delay in construction was due to the State Defendants and contends that it is owed \$26.11 million. The State Defendants filed counter claims against Archer Western for damages, extra costs, and credits owed to the Department, totaling \$7.15 million. The Department is represented by the North Carolina Attorney General's Office in this matter.

The Department awarded \$6.0 billion in Medicaid Prepaid Health Plan contracts on February 4, 2019. The Department had four bidders to file bid protests, alleging errors in the process and scoring that, in their view, would justify awarding them a contract or a larger contract. The matters are all now in the Office of Administrative Hearings as contested cases. The North Carolina Attorney General's Office along with an outside counsel, pursuant to its authority under General Statute 143B-216.80(b)(2), have been retained to represent the Department in those protest matters.

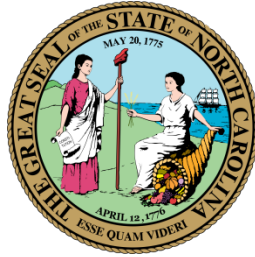
- C. Commitments** - As of June 30, 2019, the Department had commitments of \$15.9 million related to construction and improvements of state government facilities, primarily within the Division of Mental Health.
- D. Other Contingencies** - The Civil Rights Division of the United States Department of 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. 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.

**NOTE 18 - FUND BALANCE RESTATEMENT**

As of July 1, 2018, fund balance as previously reported was restated for the Division of Health Benefits as follows:

	<u>Health Benefits</u>
July 1, 2018 Fund Balance as Previously Reported Restatement	\$ (2,302,027)
To Combine the Divisions of Medical Assistance and Health Benefits	<u>(237,218,416)</u>
July 1, 2018 Fund Balance as Restated	<u>\$ (239,520,443)</u>

The divisions of Medical Assistance and Health Benefits combined into one division called the Division of Health Benefits. This was in accordance with the North Carolina General Assembly House Bill 372 [Session Law 2015-245 Section 10] which eliminated the Division of Medical Assistance and all of its functions, powers, duties, obligations, and services transferred to the Division of Health Benefits.



# **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**  
**Department**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-1**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants	\$ 13,064,780,313	\$ 13,256,599,058	\$ 12,637,845,418	\$ (618,753,640)
Local Grants	753,051,164	838,277,248	819,259,205	(19,018,043)
Provider Match	269,161,031	327,041,494	390,948,311	63,906,817
Local Match and Program Income	10,050,143	10,577,618	10,345,987	(231,631)
Sales, Services, and Rentals	89,059,393	75,025,905	47,975,733	(27,050,172)
Rental and Lease of Property	131,982	131,982	159,690	27,708
Fees, Licenses, and Fines	709,211,378	797,711,016	865,386,650	67,675,634
Contributions and Donations	100,375	397,849	487,855	90,006
Investment Income			577,951	577,951
Miscellaneous Revenues	123,641,640	124,635,139	115,592,334	(9,042,805)
Total Revenues	<u>15,019,187,419</u>	<u>15,430,397,309</u>	<u>14,888,579,134</u>	<u>(541,818,175)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	1,246,446,957	1,200,800,796	1,125,644,403	75,156,393
Purchased Services	628,823,311	797,435,665	573,347,722	224,087,943
Supplies	73,712,390	67,199,005	55,292,082	11,906,923
Property, Plant, and Equipment	32,379,615	45,990,457	30,409,131	15,581,326
Other Expenditures and Adjustments	21,991,453	38,756,341	36,140,670	2,615,671
Aid and Public Assistance	18,406,640,159	18,663,822,981	18,280,391,386	383,431,595
Reserves	75,984,939	45,701,525	(24,718)	45,726,243
Total Expenditures	<u>20,485,978,824</u>	<u>20,859,706,770</u>	<u>20,101,200,676</u>	<u>758,506,094</u>
Excess of Revenues Over (Under) Expenditures	<u>(5,466,791,405)</u>	<u>(5,429,309,461)</u>	<u>(5,212,621,542)</u>	<u>216,687,919</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	5,346,691,741	5,356,501,363	5,272,620,888	(83,880,475)
Transfers from Other Departments or Funds	831,143,649	1,071,358,671	892,934,779	(178,423,892)
Transfers to Other Departments or Funds	(711,949,692)	(1,010,281,299)	(939,319,767)	70,961,532
Total Other Financing Sources	<u>5,465,885,698</u>	<u>5,417,578,735</u>	<u>5,226,235,900</u>	<u>(191,342,835)</u>
Net Change in Fund Balance	(905,707)	(11,730,726)	13,614,358	25,345,084
Fund Balance - July 1, 2018	<u>59,317,712</u>	<u>59,317,712</u>	<u>103,046,594</u>	
Fund Balance - June 30, 2019	<u>\$ 58,412,005</u>	<u>\$ 47,586,986</u>	<u>\$ 116,660,952</u>	<u>\$ 25,345,084</u>

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 116,660,952
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	1,040,741,712
Payables	(1,503,863,329)
Deferred Inflows	\$ (44,736,776)
Total Basis Differences	<u>(507,858,393)</u>
<b>Other Adjustments:</b>	
Cash	131,761,440
Inventories	9,781,187
<b>Timing Differences:</b>	
Forward Funded State Aid	<u>7,295,643</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ (242,359,171)</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, 2019**

**Exhibit M-2**

	<u>Budgeted Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants:				
Medical Assistance Administration and Training	\$ 192,138,917	\$ 195,957,236	\$ 107,694,552	\$ (88,262,684)
Title IV-D / Child Support	5,458,188	6,987,998	5,964,617	(1,023,381)
Other Federal Grants	70,776,035	66,670,843	54,491,782	(12,179,061)
Local Grants	722,285	790,683	636,467	(154,216)
Sales, Services, and Rentals	13,875		15,284	15,284
Miscellaneous Revenues	2,178,140	2,838,450	2,240,095	(598,355)
Total Revenues	<u>271,287,440</u>	<u>273,245,210</u>	<u>171,042,797</u>	<u>(102,202,413)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	99,799,115	91,143,692	80,787,423	10,356,269
Purchased Services	262,686,169	309,471,208	210,919,057	98,552,151
Supplies	1,358,592	1,649,066	1,195,535	453,531
Property, Plant, and Equipment	16,430,978	15,959,634	8,960,827	6,998,807
Other Expenditures and Adjustments	1,499,711	2,613,058	2,603,993	9,065
Aid and Public Assistance	38,980,964	41,963,416	38,354,111	3,609,305
Reserves	27,797,297	7,906,805	282	7,906,523
Total Expenditures	<u>448,552,826</u>	<u>470,706,879</u>	<u>342,821,228</u>	<u>127,885,651</u>
Excess of Revenues Over (Under) Expenditures	<u>(177,265,386)</u>	<u>(197,461,669)</u>	<u>(171,778,431)</u>	<u>25,683,238</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	133,750,101	137,913,377	137,477,426	(435,951)
Transfers from Other Departments or Funds	72,158,516	96,903,540	74,814,734	(22,088,806)
Transfers to Other Departments or Funds	<u>(28,643,231)</u>	<u>(43,220,069)</u>	<u>(39,315,625)</u>	<u>3,904,444</u>
Total Other Financing Sources	<u>177,265,386</u>	<u>191,596,848</u>	<u>172,976,535</u>	<u>(18,620,313)</u>
Net Change in Fund Balance	0	(5,864,821)	1,198,104	7,062,925
Fund Balance - July 1, 2018	<u>22,766,239</u>	<u>22,766,239</u>	<u>22,766,239</u>	
Fund Balance - June 30, 2019	<u>\$ 22,766,239</u>	<u>\$ 16,901,418</u>	<u>\$ 23,964,343</u>	<u>\$ 7,062,925</u>

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 23,964,343
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	23,210,232
Payables	(154,768,917)
Deferred Inflows	(117)
Total Basis Differences	<u>(131,558,802)</u>
<b>Other Adjustments:</b>	
Cash	131,754,188
Inventories	245,053
<b>Timing Differences:</b>	
Forward Funded State Aid	<u>1,254,262</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ 25,659,044</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 Health Benefits**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-3**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants:				
Medical Assistance Program	\$ 9,254,901,387	\$ 9,300,133,848	\$ 9,034,329,727	\$ (265,804,121)
Medical Assistance Administration and Training	142,631,469	165,030,999	138,876,696	(26,154,303)
CHIP	387,002,402	370,296,933	515,791,381	145,494,448
Other Federal Grants	62,109,583	57,162,012	21,596,292	(35,565,720)
Provider Match	269,161,031	327,041,494	390,948,311	63,906,817
Sales, Services, and Rentals	14,442	14,863	10,876	(3,987)
Fees, Licenses, and Fines	667,132,414	755,130,249	820,724,034	65,593,785
Investment Income			577,951	577,951
Miscellaneous Revenues	18,861,654	3,760,259	10,167,535	6,407,276
<b>Total Revenues</b>	<b>10,801,814,382</b>	<b>10,978,570,657</b>	<b>10,933,022,803</b>	<b>(45,547,854)</b>
<b>EXPENDITURES</b>				
Salaries and Benefits	39,026,998	41,108,281	37,508,760	3,599,521
Purchased Services	171,012,995	223,828,609	161,621,602	62,207,007
Supplies	200,225	209,987	170,790	39,197
Property, Plant, and Equipment	238,209	1,493,213	1,155,565	337,648
Other Expenditures and Adjustments	1,020,989	1,402,176	1,283,797	118,379
Aid and Public Assistance	14,517,075,469	14,550,742,749	14,417,468,716	133,274,033
Reserves		3,409,554		3,409,554
<b>Total Expenditures</b>	<b>14,728,574,885</b>	<b>14,822,194,569</b>	<b>14,619,209,230</b>	<b>202,985,339</b>
Excess of Revenues Over (Under) Expenditures	<u>(3,926,760,503)</u>	<u>(3,843,623,912)</u>	<u>(3,686,186,427)</u>	<u>157,437,485</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	3,819,611,279	3,826,414,554	3,758,452,820	(67,961,734)
Transfers from Other Departments or Funds	561,795,457	679,147,246	533,425,298	(145,721,948)
Transfers to Other Departments or Funds	<u>(455,275,233)</u>	<u>(664,552,945)</u>	<u>(599,039,714)</u>	<u>65,513,231</u>
<b>Total Other Financing Sources</b>	<b>3,926,131,503</b>	<b>3,841,008,855</b>	<b>3,692,838,404</b>	<b>(148,170,451)</b>
Net Change in Fund Balance	(629,000)	(2,615,057)	6,651,977	9,267,034
Fund Balance - July 1, 2018, as Restated	43,728,882	43,728,882	43,728,882	
Fund Balance - June 30, 2019	<u>\$ 43,099,882</u>	<u>\$ 41,113,825</u>	<u>\$ 50,380,859</u>	<u>\$ 9,267,034</u>

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, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 50,380,859
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	813,585,663
Payables	(1,154,805,020)
Deferred Inflows	(30,676,005)
Total Basis Differences	<u>(371,895,362)</u>
<b>Other Adjustments:</b>	
Inventories	12,548
<b>Timing Differences:</b>	
Forward Funded State Aid	911,477
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ (320,590,478)</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 Child Development and Early Education**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-4**

	<u>Budgeted Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants:				
Child Care Development Funds	\$ 241,060,640	\$ 241,161,318	\$ 218,838,282	\$ (22,323,036)
TANF	177,374,580	177,374,580	176,152,124	(1,222,456)
Other Federal Grants	56,753,849	63,963,476	60,960,799	(3,002,677)
Fees, Licenses, and Fines	2,100,401	2,176,868	2,115,725	(61,143)
Miscellaneous Revenues	264,397	578,654	596,957	18,303
<b>Total Revenues</b>	<b>477,553,867</b>	<b>485,254,896</b>	<b>458,663,887</b>	<b>(26,591,009)</b>
<b>EXPENDITURES</b>				
Salaries and Benefits	23,817,421	23,168,948	20,808,451	2,360,497
Purchased Services	4,644,189	10,845,365	7,255,940	3,589,425
Supplies	93,195	252,812	105,396	147,416
Property, Plant, and Equipment	38,855	136,471	69,449	67,022
Other Expenditures and Adjustments	375,360	500,673	489,743	10,930
Aid and Public Assistance	724,471,590	738,252,726	733,495,713	4,757,013
Reserves	27,327,439	14,983,252		14,983,252
<b>Total Expenditures</b>	<b>780,768,049</b>	<b>788,140,247</b>	<b>762,224,692</b>	<b>25,915,555</b>
Excess of Revenues Over (Under) Expenditures	(303,214,182)	(302,885,351)	(303,560,805)	(675,454)
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	228,299,866	228,529,231	228,529,231	
Transfers from Other Departments or Funds	78,252,110	81,080,418	81,046,273	(34,145)
Transfers to Other Departments or Funds	(3,337,814)	(6,724,298)	(6,014,699)	709,599
<b>Total Other Financing Sources</b>	<b>303,214,162</b>	<b>302,885,351</b>	<b>303,560,805</b>	<b>675,454</b>
Net Change in Fund Balance	(20)	0	0	0
Fund Balance - July 1, 2018	0	0	0	
Fund Balance - June 30, 2019	<u>\$ (20)</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, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	34,247,185
Payables	(39,406,072)
Deferred Inflows	(4,877)
Total Basis Differences	<u>(5,163,764)</u>
<b>Other Adjustments:</b>	
Inventories	<u>14,617</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ (5,149,147)</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 Health Service Regulation**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-5**

	<u>Budgeted Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants:				
Medicare	\$ 10,382,045	\$ 10,392,372	\$ 8,981,792	\$ (1,410,580)
Health Standard Quality Bureau	6,719,390	6,717,697	5,996,566	(721,131)
Medical Assistance Administration and Training	7,016,034	7,019,269	5,758,254	(1,261,015)
HRSA - Bioterrorism Hospital	6,799,571	6,603,186	7,512,626	909,440
Other Federal Grants	6,258,233	6,181,342	2,037,042	(4,144,300)
Local Grants	1,471,649	2,031,209	1,789,699	(241,510)
Sales, Services, and Rentals	486,615	457,891	376,467	(81,424)
Fees, Licenses, and Fines	12,451,384	13,025,337	18,189,189	5,163,852
Miscellaneous Revenues	1,280,304	2,142,079	2,089,162	(52,917)
	<u>52,865,225</u>	<u>54,570,382</u>	<u>52,730,797</u>	<u>(1,839,585)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	50,477,067	47,790,903	44,124,229	3,666,674
Purchased Services	6,392,056	9,641,014	7,789,428	1,851,586
Supplies	438,688	590,351	280,912	309,439
Property, Plant, and Equipment	631,625	1,183,587	895,010	288,577
Other Expenditures and Adjustments	1,385,626	1,578,641	1,554,071	24,570
Aid and Public Assistance	10,229,800	12,549,191	8,052,524	4,496,667
Reserves	1,271,204	808,031		808,031
	<u>70,826,066</u>	<u>74,141,718</u>	<u>62,696,174</u>	<u>11,445,544</u>
Total Expenditures				
Excess of Revenues Over (Under) Expenditures	<u>(17,960,841)</u>	<u>(19,571,336)</u>	<u>(9,965,377)</u>	<u>9,605,959</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	19,410,530	19,268,056	18,021,646	(1,246,410)
Transfers from Other Departments or Funds	1,923,961	5,633,646	4,715,774	(917,872)
Transfers to Other Departments or Funds	<u>(4,319,933)</u>	<u>(8,597,155)</u>	<u>(9,899,666)</u>	<u>(1,302,511)</u>
	<u>17,014,558</u>	<u>16,304,547</u>	<u>12,837,754</u>	<u>(3,466,793)</u>
Total Other Financing Sources				
Net Change in Fund Balance	(946,283)	(3,266,789)	2,872,377	6,139,166
Fund Balance - July 1, 2018	<u>32,966,717</u>	<u>32,966,717</u>	<u>32,966,717</u>	
Fund Balance - June 30, 2019	<u>\$ 32,020,434</u>	<u>\$ 29,699,928</u>	<u>\$ 35,839,094</u>	<u>\$ 6,139,166</u>

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 35,839,094
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	3,844,644
Payables	(2,113,985)
Deferred Inflows	<u>(1,029,163)</u>
Total Basis Differences	<u>701,496</u>
<b>Other Adjustments:</b>	
Inventories	<u>6,425</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ 36,547,015</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 Public Health**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-6**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants:				
Child/Adult Day Care	\$ 127,018,883	\$ 127,911,471	\$ 108,156,091	\$ (19,755,380)
HIV Care Grant	56,300,200	67,760,723	52,798,512	(14,962,211)
WIC	231,877,646	229,308,763	147,770,608	(81,538,155)
Medicaid	52,025,354	56,090,309	43,491,455	(12,598,854)
Other Federal Grants	137,459,963	152,216,869	109,546,668	(42,670,201)
Local Grants	24,718,707	31,544,584	26,655,609	(4,888,975)
Sales, Services, and Rentals	2,383,230	2,390,979	1,304,853	(1,086,126)
Fees, Licenses, and Fines	26,271,207	26,188,412	23,408,205	(2,780,207)
Contributions and Donations		297,474	359,755	62,281
Miscellaneous Revenues	80,556,137	86,148,903	78,414,053	(7,734,850)
Total Revenues	<u>738,611,327</u>	<u>779,858,487</u>	<u>591,905,809</u>	<u>(187,952,678)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	152,868,251	147,622,390	131,863,925	15,758,465
Purchased Services	71,733,316	92,595,651	54,762,621	37,833,030
Supplies	20,762,485	16,029,118	9,039,782	6,989,336
Property, Plant, and Equipment	8,181,876	12,127,761	4,750,386	7,377,375
Other Expenditures and Adjustments	5,475,533	10,047,637	8,534,061	1,513,576
Aid and Public Assistance	629,714,263	649,605,616	525,196,101	124,409,515
Reserves	8,494,835	2,436,124		2,436,124
Total Expenditures	<u>897,230,559</u>	<u>930,464,297</u>	<u>734,146,876</u>	<u>196,317,421</u>
Excess of Revenues Over (Under) Expenditures	<u>(158,619,232)</u>	<u>(150,605,810)</u>	<u>(142,241,067)</u>	<u>8,364,743</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	156,643,735	156,471,172	152,096,605	(4,374,567)
Transfers from Other Departments or Funds	8,327,045	11,623,881	9,546,517	(2,077,364)
Transfers to Other Departments or Funds	(6,351,548)	(17,486,243)	(16,550,939)	935,304
Total Other Financing Sources	<u>158,619,232</u>	<u>150,608,810</u>	<u>145,092,183</u>	<u>(5,516,627)</u>
Net Change in Fund Balance	0	3,000	2,851,116	2,848,116
Fund Balance - July 1, 2018	444,859	444,859	444,859	
Fund Balance - June 30, 2019	<u>\$ 444,859</u>	<u>\$ 447,859</u>	<u>\$ 3,295,975</u>	<u>\$ 2,848,116</u>

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 3,295,975
<b>Reconciling Adjustments:</b>	
<b>Basis Differences:</b>	
Receivables	27,518,986
Payables	(29,190,380)
Deferred Inflows	(3,313,660)
Total Basis Differences	<u>(4,985,054)</u>
<b>Other Adjustments:</b>	
Inventories	4,081,820
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ 2,392,741</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, 2019**

**Exhibit M-7**

	<u>Budgeted Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants:				
Title III Grants	\$ 28,659,748	\$ 34,405,918	\$ 33,002,923	\$ (1,402,995)
Nutrition Services Incentive Program	3,392,545	3,424,614	3,289,529	(135,085)
Family Caregiver Support	4,687,775	5,663,934	5,077,566	(586,368)
Other Federal Grants	16,675,691	19,872,899	16,627,399	(3,245,500)
Local Match and Program Income	10,050,143	10,577,618	10,345,987	(231,631)
Sales, Services, and Rentals	100	100	9	(91)
Fees, Licenses, and Fines	45,000	40,415	11,239	(29,176)
Contributions and Donations	90,000	90,000	85,600	(4,400)
Miscellaneous Revenues	44,929	150,072	150,511	439
<b>Total Revenues</b>	<b>63,645,931</b>	<b>74,225,570</b>	<b>68,590,763</b>	<b>(5,634,807)</b>
<b>EXPENDITURES</b>				
Salaries and Benefits	6,561,791	6,159,944	5,748,084	411,860
Purchased Services	1,927,631	2,694,282	2,067,246	627,036
Supplies	34,234	41,944	38,081	3,863
Property, Plant, and Equipment	55,225	54,610	34,791	19,819
Other Expenditures and Adjustments	58,235	174,058	172,620	1,438
Aid and Public Assistance	101,843,186	113,073,956	108,278,302	4,795,654
Reserves	83,364	17,545		17,545
<b>Total Expenditures</b>	<b>110,563,666</b>	<b>122,216,339</b>	<b>116,339,124</b>	<b>5,877,215</b>
Excess of Revenues Over (Under) Expenditures	(46,917,735)	(47,990,769)	(47,748,361)	242,408
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	47,172,799	47,115,117	46,885,165	(229,952)
Transfers from Other Departments or Funds	47,294	1,795,852	1,728,917	(66,935)
Transfers to Other Departments or Funds	(238,580)	(866,533)	(865,721)	812
<b>Total Other Financing Sources</b>	<b>46,981,513</b>	<b>48,044,436</b>	<b>47,748,361</b>	<b>(296,075)</b>
Net Change in Fund Balance	63,778	53,667	0	(53,667)
Fund Balance - July 1, 2018	0	0	0	
Fund Balance - June 30, 2019	<u>\$ 63,778</u>	<u>\$ 53,667</u>	<u>\$ 0</u>	<u>\$ (53,667)</u>

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	1,313,960
Payables	(8,115,785)
Total Basis Differences	<u>(6,801,825)</u>
<b>Other Adjustments:</b>	
Inventories	4,927
<b>Timing Differences:</b>	
Forward Funded State Aid	<u>37,858</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ (6,759,040)</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 Services for the Blind/Deaf and Hard of Hearing**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-8**

	<u>Budgeted Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants:				
Rehab Services	\$ 15,038,731	\$ 14,504,026	\$ 11,820,599	\$ (2,683,427)
Other Federal Grants	4,715,612	4,941,387	4,690,078	(251,309)
Local Grants	1,173,717	1,035,648	841,314	(194,334)
Sales, Services, and Rentals		108,183	106,548	(1,635)
Fees, Licenses, and Fines	61,237			
Miscellaneous Revenues	386,852	1,081,707	1,057,033	(24,674)
	<u>21,376,149</u>	<u>21,670,951</u>	<u>18,515,572</u>	<u>(3,155,379)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	23,380,934	23,392,670	20,359,669	3,033,001
Purchased Services	8,354,231	8,654,417	6,367,881	2,286,536
Supplies	358,636	474,677	370,119	104,558
Property, Plant, and Equipment	229,153	412,059	407,708	4,351
Other Expenditures and Adjustments	554,313	669,916	661,239	8,677
Aid and Public Assistance	12,740,211	12,782,717	10,479,901	2,302,816
Reserves	274,961			
	<u>45,892,439</u>	<u>46,386,456</u>	<u>38,646,517</u>	<u>7,739,939</u>
Excess of Revenues Over (Under) Expenditures	<u>(24,516,290)</u>	<u>(24,715,505)</u>	<u>(20,130,945)</u>	<u>4,584,560</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	8,563,625	8,560,087	7,890,327	(669,760)
Transfers from Other Departments or Funds	16,386,335	17,222,945	13,308,145	(3,914,800)
Transfers to Other Departments or Funds	(433,670)	(1,067,527)	(1,067,527)	
	<u>24,516,290</u>	<u>24,715,505</u>	<u>20,130,945</u>	<u>(4,584,560)</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance - July 1, 2018	0	0	0	
Fund Balance - June 30, 2019	<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, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	496,745
Payables	(1,219,721)
Deferred Inflows	(136)
Total Basis Differences	<u>(723,112)</u>
<b>Other Adjustments:</b>	
Inventories	<u>27,228</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ (695,884)</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 Vocational Rehabilitation**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-9**

	<u>Budgeted Amounts</u>		<u>Actual (Cash Basis)</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants:				
Rehabilitation Services	\$ 97,917,528	\$ 93,757,667	\$ 82,917,580	\$ (10,840,087)
Other Federal Grants	3,525,038	4,376,648	3,206,605	(1,170,043)
Local Grants	2,921,070	2,921,070	2,640,919	(280,151)
Sales, Services, and Rentals	435,678	469,359	378,924	(90,435)
Miscellaneous Revenues	4,298,276	9,285,905	9,285,903	(2)
<b>Total Revenues</b>	<b>109,097,590</b>	<b>110,810,649</b>	<b>98,429,931</b>	<b>(12,380,718)</b>
<b>EXPENDITURES</b>				
Salaries and Benefits	64,018,987	62,593,292	56,477,406	6,115,886
Purchased Services	9,606,281	11,293,138	10,555,547	737,591
Supplies	817,297	811,717	762,236	49,481
Property, Plant, and Equipment	453,085	606,053	542,637	63,416
Other Expenditures and Adjustments	1,165,426	1,980,793	1,972,671	8,122
Aid and Public Assistance	70,044,351	70,258,519	64,042,169	6,216,350
Reserves	947,325			
<b>Total Expenditures</b>	<b>147,052,752</b>	<b>147,543,512</b>	<b>134,352,666</b>	<b>13,190,846</b>
Excess of Revenues Over (Under) Expenditures	(37,955,162)	(36,732,863)	(35,922,735)	810,128
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	39,406,623	39,396,834	38,677,483	(719,351)
Transfers from Other Departments or Funds		1,647,436	1,519,639	(127,797)
Transfers to Other Departments or Funds	(1,451,461)	(4,368,928)	(4,323,053)	45,875
<b>Total Other Financing Sources</b>	<b>37,955,162</b>	<b>36,675,342</b>	<b>35,874,069</b>	<b>(801,273)</b>
Net Change in Fund Balance	0	(57,521)	(48,666)	8,855
Fund Balance - July 1, 2018	63,507	63,507	63,507	
Fund Balance - June 30, 2019	<u>\$ 63,507</u>	<u>\$ 5,986</u>	<u>\$ 14,841</u>	<u>\$ 8,855</u>

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 14,841
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	4,244,675
Payables	(5,187,413)
Deferred Inflows	(4)
Total Basis Differences	<u>(942,742)</u>
<b>Other Adjustments:</b>	
Inventories	<u>115,104</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ (812,797)</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 Social Services**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-10**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants:				
Medical Assistance Administration and Training	\$ 228,397,093	\$ 253,956,451	\$ 250,581,612	\$ (3,374,839)
Title IV-D / Child Support	102,839,222	107,269,489	103,126,800	(4,142,689)
Title IV-E / Foster Care	137,768,798	155,527,748	152,657,949	(2,869,799)
Low Income Energy Program	112,572,177	112,572,177	90,701,251	(21,870,926)
Food Stamps	103,024,821	118,254,952	114,978,036	(3,276,916)
TANF	166,145,894	166,145,894	156,821,327	(9,324,567)
Other Federal Grants	102,766,209	109,374,458	102,755,239	(6,619,219)
Local Grants	719,356,800	789,883,150	777,068,190	(12,814,960)
Fees, Licenses, and Fines	332,215	332,215	342,688	10,473
Miscellaneous Revenues	14,156,446	16,887,679	9,766,161	(7,121,518)
Total Revenues	<u>1,687,359,675</u>	<u>1,830,204,213</u>	<u>1,758,799,253</u>	<u>(71,404,960)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	30,775,961	28,914,435	25,748,440	3,165,995
Purchased Services	25,562,524	28,867,880	24,676,092	4,191,788
Supplies	225,772	222,151	148,490	73,661
Property, Plant, and Equipment	307,381	452,790	327,402	125,388
Other Expenditures and Adjustments	3,181,089	4,119,428	3,956,179	163,249
Aid and Public Assistance	1,830,421,159	1,970,532,611	1,906,104,884	64,427,727
Reserves	9,155,444	1,367,380		1,367,380
Total Expenditures	<u>1,899,629,330</u>	<u>2,034,476,675</u>	<u>1,960,961,487</u>	<u>73,515,188</u>
Excess of Revenues Over (Under) Expenditures	<u>(212,269,655)</u>	<u>(204,272,462)</u>	<u>(202,162,234)</u>	<u>2,110,228</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	205,501,488	204,833,511	203,990,680	(842,831)
Transfers from Other Departments or Funds	15,080,961	24,128,357	22,311,826	(1,816,531)
Transfers to Other Departments or Funds	(7,706,976)	(24,672,611)	(24,050,822)	621,789
Total Other Financing Sources	<u>212,875,473</u>	<u>204,289,257</u>	<u>202,251,684</u>	<u>(2,037,573)</u>
Net Change in Fund Balance	605,818	16,795	89,450	72,655
Fund Balance - July 1, 2018	3,076,390	3,076,390	3,076,390	
Fund Balance - June 30, 2019	<u>\$ 3,682,208</u>	<u>\$ 3,093,185</u>	<u>\$ 3,165,840</u>	<u>\$ 72,655</u>

Food stamp benefits are recognized as revenues and expenditures when recipients use the benefits. Food stamps used during the year of \$1,934,420,237 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, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 3,165,840
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	86,984,429
Payables	(87,045,144)
Deferred Inflows	<u>(175,907)</u>
Total Basis Differences	<u>(236,622)</u>
<b>Other Adjustments:</b>	
Cash	7,252
Inventories	<u>30,018</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ 2,966,488</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 Mental Health/Developmental Disabilities and Substance Abuse Services**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit M-11**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Federal Grants:				
Medical Assistance Administration and Training	\$ 5,437,512	\$ 6,061,370	\$ 4,627,392	\$ (1,433,978)
Reimbursements to Facilities	3,430,467	3,430,467	2,604,890	(825,577)
Medicaid	617,111,050	602,403,167	583,484,159	(18,919,008)
SAPT Block Grant	46,226,862	47,826,862	36,561,792	(11,265,070)
Other Federal Grants	32,383,171	77,887,686	51,566,826	(26,320,860)
Local Grants	2,686,936	10,070,904	9,627,007	(443,897)
Sales, Services, and Rentals	85,725,453	71,584,530	45,782,772	(25,801,758)
Rental and Lease of Property	131,982	131,982	159,690	27,708
Fees, Licenses, and Fines	817,520	817,520	595,570	(221,950)
Contributions and Donations	10,375	10,375	42,500	32,125
Miscellaneous Revenues	1,614,505	1,761,431	1,824,924	63,493
Total Revenues	<u>795,575,833</u>	<u>821,986,294</u>	<u>736,877,522</u>	<u>(85,108,772)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	755,720,432	728,906,241	702,218,016	26,688,225
Purchased Services	66,903,919	99,544,101	87,332,308	12,211,793
Supplies	49,423,266	46,917,182	43,180,741	3,736,441
Property, Plant, and Equipment	5,813,228	13,564,279	13,265,356	298,923
Other Expenditures and Adjustments	7,275,171	15,669,961	14,912,296	757,665
Aid and Public Assistance	471,119,166	504,061,480	468,918,965	35,142,515
Reserves	633,070	14,772,834	(25,000)	14,797,834
Total Expenditures	<u>1,356,888,252</u>	<u>1,423,436,078</u>	<u>1,329,802,682</u>	<u>93,633,396</u>
Excess of Revenues Over (Under) Expenditures	<u>(561,312,419)</u>	<u>(601,449,784)</u>	<u>(592,925,160)</u>	<u>8,524,624</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
State Appropriations	688,331,695	687,999,424	680,599,505	(7,399,919)
Transfers from Other Departments or Funds	77,171,970	152,175,350	150,517,656	(1,657,694)
Transfers to Other Departments or Funds	(204,191,246)	(238,724,990)	(238,192,001)	532,989
Total Other Financing Sources	<u>561,312,419</u>	<u>601,449,784</u>	<u>592,925,160</u>	<u>(8,524,624)</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance - July 1, 2018	0	0	0	0
Fund Balance - June 30, 2019	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2019	\$ 0
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
Receivables	45,295,193
Payables	(22,010,892)
Deferred Inflows	(9,536,907)
Total Basis Differences	<u>13,747,394</u>
<b>Other Adjustments:</b>	
Inventories	5,243,447
<b>Timing Differences:</b>	
Forward Funded State Aid	<u>5,092,046</u>
Fund Balance (GAAP Basis) June 30, 2019	<u>\$ 24,082,887</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, 2019**

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**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.

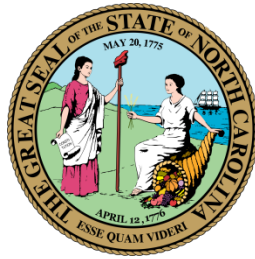
**B. Reconciliation of Budget/GAAP Reporting Differences**

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, 2019 (With Comparative Totals for June 30, 2018)**

	Central Administration	Health Benefits (1)	Child Development (2)	Health Service Regulation
<b>GRANTS, STATE AID, AND SUBSIDIES</b>				
Medical Assistance:				
Managed Care	\$ 0	\$ 2,562,537,124	\$ 0	\$ 0
Supplemental Expenditures		2,369,947,500		
Skilled Nursing Facilities and Personal Care		1,415,542,840		
Physician Services		1,574,421,347		
Medical Services		1,660,336,845		
Hospital		1,145,316,513		
Pharmacy Services (Net of Rebates)		676,812,244		
Buy-In / Dual Eligible Expenditures		920,196,840		
Dental		393,168,965		
Other Medical Assistance		10,287,344		
		<u>12,728,567,562</u>		
Total Medical Assistance	<u>0</u>	<u>12,728,567,562</u>	<u>0</u>	<u>0</u>
Social Service Programs:				
Food and Nutrition				
Child and Family			600,764,897	
Smart Start Programs			131,242,926	
Support of Aging and Adult Programs				
Support of Medicaid Programs				
Other Social Service Programs				
Total Social Service Programs	<u>0</u>	<u>0</u>	<u>732,007,823</u>	<u>0</u>
Public Health Programs:				
Communicable Diseases				
General Public Health				
Chronic Diseases				
Other Public Health Programs				
Total Public Health Programs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Mental Health Programs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Grants, State Aid, and Subsidies	<u>37,770,814</u>	<u>0</u>	<u>0</u>	<u>6,285,980</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 37,770,814</u>	<u>\$ 12,728,567,562</u>	<u>\$ 732,007,823</u>	<u>\$ 6,285,980</u>

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

Public Health (3)	Aging	Blind/Deaf Services	Vocational Rehabilitation	Social Services (4)	Mental Health (5)	Total Governmental Funds 2019	Total Governmental Funds 2018
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,562,537,124	\$ 2,543,038,305
						2,369,947,500	2,347,521,214
						1,415,542,840	1,372,429,363
						1,574,421,347	1,520,214,375
						1,660,336,845	1,510,412,691
						1,145,316,513	1,137,441,433
						676,812,244	724,203,805
						920,196,840	902,641,986
						393,168,965	382,339,045
						10,287,344	15,308,515
0	0	0	0	0	0	12,728,567,562	12,455,550,732
303,796,776				2,040,859,070		2,344,655,846	2,322,056,118
81,523,934				605,461,895		1,287,750,726	1,195,749,580
				126,228,651		131,242,926	128,714,818
				245,161,440		126,228,651	138,319,354
				151,406,660		245,161,440	235,799,102
						151,406,660	149,535,039
385,320,710	0	0	0	3,169,117,716	0	4,286,446,249	4,170,174,011
81,112,420						81,112,420	86,579,397
23,872,213						23,872,213	21,049,682
3,182,224						3,182,224	3,923,094
6,745,896						6,745,896	5,445,945
114,912,753	0	0	0	0	0	114,912,753	116,998,118
0	0	0	0	0	467,790,144	467,790,144	436,119,550
0	109,258,277	10,616,546	65,718,623	0	0	229,650,240	218,549,259
\$ 500,233,463	\$ 109,258,277	\$ 10,616,546	\$ 65,718,623	\$ 3,169,117,716	\$ 467,790,144	\$ 17,827,366,948	\$ 17,397,391,670

**North Carolina Department of Health and Human Services**  
**Schedule of Grants, State Aid, and Subsidies Expenditures**  
**Division of Health Benefits**  
**For the Fiscal Year Ended June 30, 2019**  
**(With Comparative Amounts for June 30, 2018)**

**Exhibit N-2**

GRANTS, STATE AID, AND SUBSIDIES	2019	2018
Managed Care <sup>1</sup>	\$ 2,562,537,124	\$ 2,543,038,305
Supplemental Expenditures:		
Gap Payment - Upper Payment Limit	824,635,317	917,721,751
Gap Payment - Equity Payment	623,601,466	579,321,314
Disproportionate Share Hospital Payment	338,310,249	290,561,220
Enhanced Payment	583,400,468	559,916,929
Total Supplemental Expenditures	<u>2,369,947,500</u>	<u>2,347,521,214</u>
Skilled Nursing Facilities and Personal Care:		
Skilled Nursing Facilities	942,676,634	920,731,614
Personal Care Services	472,866,206	451,697,749
Total Skilled Nursing Facilities and Personal Care	<u>1,415,542,840</u>	<u>1,372,429,363</u>
Physician Services:		
Physician Services	1,120,565,765	1,057,907,085
Clinics	246,354,404	251,359,240
Community Care of NC (N3CN)	207,501,178	210,948,050
Total Physician Services	<u>1,574,421,347</u>	<u>1,520,214,375</u>
Medical Services:		
Client Assistant Program (CAP)	333,384,890	308,191,141
Equipment	265,472,787	239,249,543
Health Check	89,834,715	91,202,376
Transport	195,371,809	183,512,777
Short Term Care	230,679,074	233,879,230
Non-Physician Services	167,265,199	158,168,056
Standalone Lab/X-Ray	114,082,382	117,369,901
Hospice	83,322,231	75,790,644
Case Management	1,844,058	1,597,235
Medical - General	174,339,582	96,794,938
Family Planning	4,740,118	4,656,850
Total Medical Services	<u>1,660,336,845</u>	<u>1,510,412,691</u>
Hospital:		
Hospital - Outpatient	507,958,080	469,871,074
Hospital - Inpatient	273,454,224	293,423,029
Emergency Room	363,904,209	374,147,330
Total Hospital	<u>1,145,316,513</u>	<u>1,137,441,433</u>
Prescribed Drugs:		
Pharmacy Services	1,947,452,989	1,958,817,603
Less Rebates	(1,270,640,745)	(1,234,613,798)
Total Prescribed Drugs (Net of Rebates)	<u>676,812,244</u>	<u>724,203,805</u>
Buy-In / Dual Eligible Expenditures:		
Medicare Part A	39,235,581	41,228,741
Medicare Part B	547,956,526	537,318,204
Medicare Part D	333,004,733	324,095,041
Total Buy-In / Dual Eligible Expenditures	<u>920,196,840</u>	<u>902,641,986</u>
Dental	<u>393,168,965</u>	<u>382,339,045</u>
Other Medical Assistance:		
Health Information Technology Funding	10,227,409	15,308,515
Miscellaneous	59,935	
Total Other Medical Assistance	<u>10,287,344</u>	<u>15,308,515</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 12,728,567,562</u>	<u>\$ 12,455,550,732</u>

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

**North Carolina Department of Health and Human Services**  
**Schedule of Grants, State Aid, and Subsidies Expenditures**  
**Division of Child Development and Early Education**  
**For the Fiscal Year Ended June 30, 2019**  
**(With Comparative Amounts for June 30, 2018)**

**Exhibit N-3**

<b>GRANTS, STATE AID, AND SUBSIDIES</b>	<b>2019</b>	<b>2018</b>
Child and Family:		
Subsidized Child Care Services	\$ 430,291,453	\$ 374,626,360
Pre-K Services	170,473,444	157,166,198
Total Child and Family	<u>600,764,897</u>	<u>531,792,558</u>
Smart Start Programs:		
Smart Start Subsidized Child Care Services	17,701,901	18,471,435
Smart Start Child Care Related Activities	113,541,025	110,243,383
Total Smart Start Programs	<u>131,242,926</u>	<u>128,714,818</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 732,007,823</u>	<u>\$ 660,507,376</u>

**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, 2019**  
**(With Comparative Amounts for June 30, 2018)**

**Exhibit N-4**

<b>GRANTS, STATE AID, AND SUBSIDIES</b>	<b>2019</b>	<b>2018</b>
Social Service Programs:		
Food and Nutrition:		
Women, Infants, and Children (WIC) Program	\$ 198,550,574	\$ 215,707,052
Other Nutrition	105,246,202	100,196,795
Total Food and Nutrition	<u>303,796,776</u>	<u>315,903,847</u>
Child and Family:		
Maternal and Infant Health	19,406,674	20,673,624
Children Health Services	24,681,929	17,430,422
Child and Adult Prevention	17,254,699	16,336,706
Early Intervention	20,180,632	23,965,133
Total Child and Family	<u>81,523,934</u>	<u>78,405,885</u>
Total Social Service Programs	<u>385,320,710</u>	<u>394,309,732</u>
Public Health Programs:		
Communicable Diseases	81,112,420	86,579,397
General Public Health	23,872,213	21,049,682
Chronic Diseases	3,182,224	3,923,094
Other Public Health Programs	6,745,896	5,445,945
Total Public Health Programs	<u>114,912,753</u>	<u>116,998,118</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 500,233,463</u>	<u>\$ 511,307,850</u>

**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, 2019**  
**(With Comparative Amounts for June 30, 2018)**

**Exhibit N-5**

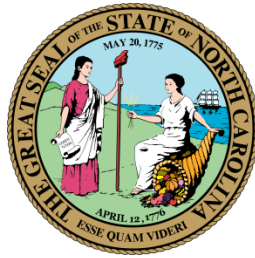
<b>GRANTS, STATE AID, AND SUBSIDIES</b>	<b>2019</b>	<b>2018</b>
Food and Nutrition:		
Food Stamp Program	\$ 1,934,420,237	\$ 1,905,603,829
Nutrition and Food Education Programs	106,438,833	100,548,442
Total Food and Nutrition	<u>2,040,859,070</u>	<u>2,006,152,271</u>
Child and Family:		
Child Services	390,625,803	380,589,865
Foster Care	99,420,165	89,799,506
Adoption	115,415,927	115,161,766
Total Child and Family	<u>605,461,895</u>	<u>585,551,137</u>
Support of Aging and Adult Programs	<u>126,228,651</u>	<u>138,319,354</u>
Support of Medicaid Programs	<u>245,161,440</u>	<u>235,799,102</u>
Other Social Service Programs:		
Low-Income Energy Assistance Program	91,758,748	88,151,697
Miscellaneous	59,647,912	61,383,342
Total Other Social Service Programs	<u>151,406,660</u>	<u>149,535,039</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 3,169,117,716</u>	<u>\$ 3,115,356,903</u>

**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, 2019**  
**(With Comparative Amounts for June 30, 2018)**

**Exhibit N-6**

<b>GRANTS, STATE AID, AND SUBSIDIES</b>	<b>2019</b>	<b>2018</b>
Mental Health Programs:		
Local Management Entity Expenditures	\$ 398,707,148	\$ 411,482,093
Non-Governmental Expenditures	68,152,026	23,765,761
Governmental Expenditures	930,970	871,696
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 467,790,144</u>	<u>\$ 436,119,550</u>





# **INDEPENDENT AUDITOR'S REPORT**

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



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

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

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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, Health Benefits, Child Development and Early Education, Health Service Regulation, Public Health, Aging and Adult Services, Services for the Blind/Deaf and Hard of Hearing, Vocational Rehabilitation, Social Services, and Mental Health/Developmental Disabilities and Substance Abuse Services of the North Carolina Department of Health and Human Services (Department) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 11, 2020.

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, 2019, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 11, 2020

# ORDERING INFORMATION

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<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information, contact the North Carolina Office of the State Auditor at 919-807-7666



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This audit required 3,676 hours at an approximate cost of \$407,304, including costs associated with the report on the Department's statewide financial statement audit procedures.