

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

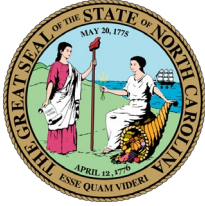
RALEIGH, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the North Carolina Department of Health and Human Services for the year ended June 30, 2022, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in black ink, reading "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

AN OVERVIEW OF HOW TO USE THIS REPORT

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

The Department is comprised of 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, 2022 and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2022 for the **Department as a whole**.

“B” Exhibits present the Balance Sheet as of June 30, 2022 and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2022 for the **Department by division**.

“C” through “L” Exhibits present the Balance Sheet as of June 30, 2022 and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2022 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 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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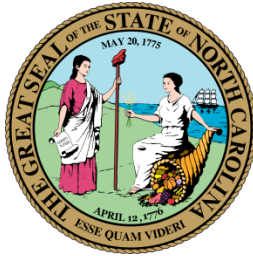
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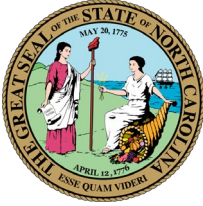
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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

INDEPENDENT AUDITOR'S REPORT

Kody H. Kinsley, Secretary
and Management of the North Carolina Department of Health and Human Services

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2022, 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Department's 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. 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 to 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023 on our consideration of the Department's internal control over financial reporting

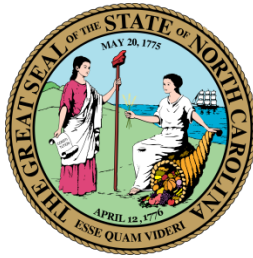
and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 27, 2023



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 year ended June 30, 2022. 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 *Annual Comprehensive Financial Report* (ACFR) 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 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 support the basic financial statements.

Required Supplementary Information

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

Other Supplementary Information

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

Financial Analysis of the Department

The following is comparative condensed financial information and a financial analysis for balances reported as of June 30, 2022 and 2021.

North Carolina Department of Health and Human Services		
Condensed Balance Sheets		
Governmental Funds		
	2022	2021 (As Restated)
Assets	\$ 2,469,761,079	\$ 1,644,080,830
Deferred Outflows of Resources		
Total Assets and Deferred Outflows	\$ 2,469,761,079	\$ 1,644,080,830
Liabilities	\$ 1,943,243,631	\$ 1,737,347,454
Deferred Inflows of Resources	21,395,323	14,388,492
Fund Balances		
Nonspendable	12,136,849	12,744,492
Restricted	114,541,390	89,487,566
Committed	748,204,788	111,795,094
Assigned	8,126,643	3,995,866
Unassigned	(377,887,545)	(325,678,134)
Total Fund Balances	505,122,125	(107,655,116)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 2,469,761,079	\$ 1,644,080,830

Total assets increased \$825.7 million, or 50.2%, compared to fiscal year 2021. This increase was primarily related to cash and cash equivalents of \$635.5 million at several divisions. At the Division of Health Benefits, this includes funds of \$257.1 million from Centers for Medicare and Medicaid Services (CMS) for the American Rescue Plan Act's (ARPA) new initiatives to expand access to high-quality home and community-based services to improve outcomes for people with long-term service and support needs, \$209.0 million in funds for Medicaid managed care transformation and Medicaid Enterprise System (MES) upgrades, and \$18.2 million in State Fiscal Recovery Fund (SFRF) cash awarded in NC Session Law 2021-180 for the division's current operations. At Central Administration, there were \$44.0 million in funds for technology

development and support of the North Carolina Families Accessing Services through Technology (NCFAST) application, and \$36.0 million in SFRF monies for directed grants to local communities. At the Division of Public Health, there were \$43.0 million in SFRF funds and \$11.0 million in funds from a settlement with JUUL Labs, Inc. for tobacco and nicotine dependence prevention and cessation activities targeted at youth and young adults. At the Division of Mental Health, there were \$20.7 million in funds for opioid abatement and treatment and substance abuse programs.

In addition, there was a \$227.0 million increase in intergovernmental receivables due to an increase in the federal reimbursement rate applicable to \$143.5 million in accounts payable accruals, \$42.0 million for payables to managed care providers and \$16.0 million due to an increase for medical claims payable. Additionally, there was a \$32.4 million decrease in accounts receivables at the Division of Health Benefits due to the higher medical claims rate in prior year 2021 and the reprocessing of point-of-sell claims in the drug rebate program, also in SFY21. Collection efforts have reduced the outstanding receivables due to Medicaid investigative and recovery audit case claims, cost settlements, and third-party recovery claims.

Total liabilities increased \$205.9 million, or 11.9%, compared to fiscal year 2021. This increase is primarily related to an increase of \$95.8 million of accounts payable. At the Division of Child Development, \$112.6 million is attributed to payments and invoices for services implemented with the American Rescue Plan, which support working families with access to high quality and affordable child-care services, and COVID-19 funds to further subsidize day care providers in the ending months and aftermath of the pandemic. At the Division of Social Services, \$7.4 million is primarily due to heating, energy, and home weatherization assistance payments to low-income families and funding to nongovernmental provider agencies to provide community assistance and increase the number of families attaining economic self-sufficiency. The Division of Mental Health had \$6.3 million in liabilities that were mainly due to additional medical staffing needs to provide COVID-19 pandemic and post-pandemic care, grant payments to universities for collegiate recovery costs, and to nongovernmental provider agencies for autism related and early intervention services. These were offset by a \$35.6 million decrease at Central Administration due a reduction in payables related to pandemic related expenses and services focusing on testing and tracing activities, and services and the development of applications to track the spread and treatment of the disease. In addition, there was an increase of \$51.3 million in amounts due to other state agencies and funds related to unspent SFRF cash on hand at the end of fiscal year 2022. There was an increase of \$43.5 million in intergovernmental payables, primarily with \$42.6 million at the Division of Health Benefits for payments to vendors, providers, managed care administration and training. There was an increase of \$13.6 million in medical claims payable due to an increase in the actuarial calculation for Medicaid's Incurred But Not Reported (IBNR) claims.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2022	2021 (As Restated)
Revenues		
Federal Funds	\$ 24,536,862,140	\$ 19,396,145,909
Other Revenues	1,001,088,102	1,051,458,056
Total Revenues	25,537,950,242	20,447,603,965
Expenditures		
Salaries and Benefits	1,263,808,524	1,309,170,814
Contracted Personal Services	1,361,283,152	985,552,182
Supplies and Materials	106,187,209	87,058,799
Travel	4,277,797	1,740,419
Communication	13,929,842	13,921,176
Utilities	17,366,943	16,246,480
Data Processing Services	18,562,730	18,190,397
Other Services	21,984,719	22,062,921
Lease Expenditures:		
Principal Payments	16,209,697	
Interest and Fees	3,368,680	
Other Fixed Charges	56,887,284	48,946,721
Capital Outlay	62,882,665	39,917,103
Grants, State Aid, and Subsidies	27,879,694,827	23,213,510,705
Expenditures to Other State Agencies	232,694,937	232,086,050
Other Expenditures	24,097,881	41,294,462
Total Expenditures	31,083,236,887	26,029,698,229
Excess Expenditures Over Revenues	(5,545,286,645)	(5,582,094,264)
Other Financing Sources (Uses)		
State Appropriations	5,709,683,356	5,442,278,900
Transfers In	664,031,105	647,903,676
Transfers Out	(664,031,105)	(647,903,676)
Transfers from State Reserve Fund	940,465,489	547,875,551
Transfers to State Reserve Fund	(520,703,862)	(467,282,170)
Leases Issued	28,382,209	
Other	236,694	122,790
Total Other Financing Sources	6,158,063,886	5,522,995,071
Net Change in Fund Balances	612,777,241	(59,099,193)
Fund Balances - Beginning of Year	(107,655,116)	(48,555,923)
Fund Balances - End of Year	\$ 505,122,125	\$ (107,655,116)

Total revenues increased \$5.1 billion, or 24.9%, compared to fiscal year 2021 due to an increase of federal COVID-19 funds of \$4.0 billion as a result of higher federal participation rates for COVID Medicaid, foster care, and adoption assistance programs, and \$1.2 billion for Supplemental Nutrition Assistance Program (SNAP) benefits payments. Federal funds have a direct relationship to grants, state aid, and subsidies, as discussed below. An increase in grants, state aid, and subsidies expenditures generally result in more federal fund reimbursements.

Total expenditures increased \$5.1 billion, or 19.4%, compared to fiscal year 2021. The increase was primarily related to a \$4.7 billion increase in grants, state aid and subsidies expenditures for program costs and implementation. This included a \$2.8 billion increase at the Division of Health Benefits for increased medical expenditures related to the COVID pandemic and treatments, and \$1.2 billion at the Division of Social Services for SNAP benefits payments and record enrollment in the adoption and foster care services programs. Additionally, there was an increase of \$375.7 million in contracted personal services. At Central Administration, there was an increase of \$242.8 million for COVID-19 pandemic contractual vaccine and infection disease related services that directly support efforts to combat the spread of the virus. At the Division of Health Benefits, there were increases in Medicaid expenditures of \$94.0 million due to higher Medicaid enrollment, and Medical Transformation and Medicaid Enterprise System (MES) computer upgrades. At the Division of Public Health, there was an increase of \$27.2 million due to increases in COVID-19 testing and laboratory services, higher benefits costs, and higher costs for employment services. At the Division of Mental Health, there was an increase of \$4.7 million due to additional medical staffing at the hospitals for pandemic and post pandemic needs.

Total other financing sources increased \$635.1 million, or 11.5%, compared to the prior year. State appropriations increased \$267.4 million primarily due to an increase in total grants, state aid, and subsidies expenditures. State appropriations are used to provide the non-federal share of federal programs. Transfers from the state reserve fund increased \$392.6 million primarily due to unspent funds carried forward for obligations from fiscal year 2021. Transfers to the state reserve fund decreased \$53.4 million due to funds obligated but not spent at year-end that were carried forward to fiscal year 2023. Leases issued increased \$28.4 million as a result of the implementation of GASB Statement No. 87, *Leases*, and represents the acquisition of right-to-use leased assets during the period.

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.

As of June 30, 2022, the Department reported a fund balance of \$505.1 million, an increase of \$612.8 million from fiscal year 2021. This increase was primarily the result of changes to committed, unassigned, and restricted fund balances. Committed fund balance increased \$636.4 million, resulting in an increase in the overall fund balance. This increase was the result of federal COVID-19 funds received in fiscal year 2022 but not spent or disbursed until fiscal year 2023, as discussed above. The related committed cash and cash equivalents are described in the Financial Analysis of the Department section above. Unassigned fund balance deficit increased by \$52.2 million or 16.0% from fiscal year 2021. This was primarily due to a \$31.1 million decrease in accounts receivable and a \$51.3 increase in due to other funds. The changes in accounts receivable and due to other funds are described in detail in the Financial Analysis of the Department section above. Restricted fund balance increased \$25.1 million due to an increase of \$11.6 million in cost settlement collections, overpayments, and Money Follows the People rebalancing for Division of Health Benefits. There was an additional increase of \$11.2 million due to an increase in year-end intergovernmental receivable accruals. The changes in accounts receivable, medical claims payable, and due to other funds are described in detail in the Financial Analysis of the Department section 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 \$3.3 billion and \$13.5 billion, respectively, more than the original budget. The budgeted revenue increases are primarily comprised of \$2.7 billion in the final budgeted federal funds and \$512.2 million in local grants. The budgeted expenditure increases are primarily comprised of a \$12.5 billion increase in aid and public assistance expenditures and a \$998.4 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. 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 \$1.9 billion less than the final budgeted revenue amounts. Actual total expenditures were \$2.5 billion less than budgeted expenditures. Budgeted revenues and expenditures were unrealized mostly due to a \$1.1 billion decrease in aid and public assistance payments incurred versus the amount budgeted. This also causes a decrease in the federal funds received.

Variances occur between the budget and actual federal funds because actual federal fund receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are incurred, the actual receipt of federal funds could be significantly less than the budget. Actual federal funds revenue was \$1.6 billion less than budgeted.

Economic Outlook

Highlights of certain divisions within the Department are listed below.

Division of Health Benefits (DHB)

- In fiscal year 2022-23, DHB will continue to face increased costs from higher enrollment related to the Public Health Emergency (PHE). Since March 2020, total Medicaid enrollment has increased by over 700,000 beneficiaries. The US Centers for Medicare and Medicaid Services (CMS) has supported the State since early in the pandemic by providing flexibilities for service provision, and the US Congress provided a 6.2 percentage point enhanced Federal Medical Assistance Percentage (FMAP) through the Families First Coronavirus Relief Act (FFCRA).
- The US Department of Health and Human Services chose to extend the public health emergency declaration once more, with an end date of May 11, 2023. Per the 2023 Federal budget, DHB will continue to receive the FFCRA 6.2% enhanced FMAP through March 31, 2023, at which point the rate will gradually phase-out throughout calendar-year 2023.

- DHB has funded COVID-19 temporary rate increases for Skilled Nursing Facilities and Personal Care Services since 2020 to support them in maintaining access to care for Medicaid beneficiaries during the PHE. In order to address continuing pressure on wages in the direct care workforce, the General Assembly provided funds to support the non-federal share of these temporary rate increases for the first half of fiscal year 2022-23. As of this writing DHB is examining whether the budget will allow extension of these rates through the end of the state fiscal year.
- DHB is continuing preparations for the launch of Tailored Plans (TP), special integrated physical and behavioral health managed care plans for Medicaid beneficiaries with intensive behavioral health needs. The Tailored Plans will replace existing LME/MCO contracts. DHB had planned to launch these on December 1, 2022, but delayed this until October 1, 2023 to allow the plans more time to prepare for the transition. DHB launched one aspect of the new structure, Tailored Care Management, on December 1, 2022. This program gives TP-eligible beneficiaries a single designated care manager supported by a multidisciplinary care team to provide whole-person care management that addresses all of their needs, spanning physical health, behavioral health, intellectual and developmental disabilities, traumatic brain injuries, pharmacy, long-term services and supports, and unmet health-related resource needs. Implementing this ahead of TP launch gives entities that are planning to provide this type of care management time to engage beneficiaries and gain experience with the model ahead of full TP launch.
- The fiscal year 2022-23 budget called for the merger of NC Health Choice with the NC Medicaid program. DHB is working on system changes needed to implement this merger on April 1, 2023. These beneficiaries will receive additional benefits that they could not receive under Health Choice, but at the same enhanced federal match rate. DHB reviewed the merger with its actuarial partner and determined that this would not likely have a significant financial impact on state spending (either capitation rates or remaining fee-for-service spending).

Division of Health Service Regulation (DHSR)

- DHSR is appealing an NC Industrial Commission and North Carolina Court of Appeals opinion that is adverse to DHSR and significantly erodes use of the Public Duty Doctrine as an affirmative defense. The appeal relates to pending claims of \$2.0 million. An unfavorable decision by the NC Supreme Court in this case would result in DHSR having to pay this amount and have a significant impact on the DHSR budget and potential future liabilities.
- DHSR is working to replace seven legacy IT systems (FoxPro, which is no longer supported by Microsoft) but they will continue to be critical to the work of DHSR during the estimated 1-2 years remaining to develop the new system (Enterprise) and conversion of the data from the legacy IT systems to Enterprise. The General Assembly has approved a budget of \$6.7 million to begin the development of the new systems; however, additional funding will be needed to maintain the systems critical to the work of DHSR.

Division of Public Health (DPH)

- In response to the national need for additional structural public health funding, the Division of Public Health has received the following grant: CDC's Collaboration with Academia to Strengthen Public Health: Strengthening North Carolina's Public Health Infrastructure, Workforce, and Data Systems in the amount of \$72.5 million for 5 years.
- DPH received an additional \$6.8 million in CDC Overdose to Action grant funding.

Division of Aging & Adult Services (DAAS)

- The NC Office of State Budget and Management's State Population Projections (Vintage 2021) shows that the population of those 60 and older is projected to increase by 22% in the next 10 years, and by 37% in the next 20 years. Projections also show that beginning in 2023, the population of older adults will surpass that of those 19 years and younger in North Carolina. The Division received recurring state appropriations of \$3.6 million to expand services in the Home and Community Care Block Grant.
- The Division continues to manage the \$54 million grant received in COVID related funding from U.S. Dept. of Housing and Urban Development to support the Emergency Solutions Program. The project period for this funding was extended to September 30, 2023. Funding is being distributed through contracts with local community-based housing and shelter assistance programs to help mitigate the impact of COVID on homelessness. The Division also received \$15.0 million in nonrecurring funds to supplement (not supplant) existing funds for rapid rehousing services to assist individuals and families with the cost of acute needs and at risk of homelessness due to the COVID-19 public health emergency with obtaining safe housing.

Division of Child Development and Early Education (DCDEE)

COVID Impacts and Funding

- DCDEE was awarded \$805 million in the American Rescue Plan Act (ARPA) that was used for stabilization grants to programs to provide monetary support for both operational and fixed costs, and compensation support to staff. These quarterly awards have been extended through the end of 2023.
- In December 2021, DCDEE was allocated an additional \$502 million in ARPA Discretionary Funds for the following purposes: decrease the childcare subsidy wait list; increase the early childhood teacher pipeline; improve technology and data reporting systems, and; waive co-pays for families on the Child Care Subsidy Assistance Program. These funds will be expended between January 2022 and September 2024.

NC Pre-K

- The General Assembly has authorized an additional 2% increase to the reimbursement rate for NC Pre-K for both FY 21-22 and FY 22-23 to support pay parity for teachers working in private sites. All providers will receive 5% to increase NC Pre-K reimbursement rates over the planned FY 2022-23 rates. Combined with funding already appropriated in the 2021 Appropriations Act for increased rates, childcare centers will receive a 9% increase over rates from the prior fiscal biennium while public schools and Head Start providers will receive a 5% increase.
- NC Pre-K was also awarded \$10 million in each year of the biennium to build childcare programs' capacity to provide NC Pre-K in counties that have low access.

Division of Vocational Rehabilitation Services (DVRS)

- The Division will complete efforts in advance of a launch to a next generation electronic case management system called ENCORE in mid-June 2023. The ENCORE electronic case management system will replace the existing Business Electronic Access Management (BEAM) case management system currently utilized by two divisions, the

Division of Services for the Blind (DSB) and the Division of Vocational Rehabilitation Services (DVRS). The project is scheduled to go-live with Phase 1 in June of 2023 and Phase 2 in February of 2024. The cost to complete this project is \$5.9 million for which approval has been granted. The programs that will be supported by ENCORE are:

- DVRS: Vocational Rehabilitation and Independent Living Rehab Programs.
- DSB: Vocational Rehabilitation, Independent Living Programs (ILR, ILS, and ILOB) and the Medical Eye Care programs.

Division of Services for Deaf and Hard of Hearing (DSDHH)

- The Division is currently working on implementing a new software solution called the Service Management System (SMS) which will replace two legacy systems, the Electronic Services System (ESS) and the Client Automation and Tracking System (CATS), both of which support the operations of the Division. The project is scheduled to go live in June of 2023. The cost of this project is estimated to be \$1.7 million.
- To reduce the costs of communication access barriers in health care settings, DSDHH and DHB have partnered to develop a model providing ASL (American Sign Language) interpreter and other communication access services in health care settings for DSDHH consumers who are deaf, hard of hearing, or deafblind and are eligible to receive Medicaid. This projected model cost is \$1.6 million to provide ASL interpreters services to the 7,550 persons who have hearing loss and are estimated to be eligible to receive Medicaid. DSDHH is assuming the responsibility for administering the program and coordinating the delivery of services.

Division of Social Services (DSS)

- DSS has received approximately \$192 million in pandemic funding from U.S. Public Law 116-260 (Consolidated Appropriations Act or CAA) and ARPA. These funds exist both as NC General Assembly appropriations and grant awards from federal agencies. These allocations provide support to families in need of food, economic and transportation assistance, protective services, foster care, and adoption assistance support. DSS has finalized multi-year disbursement plans across these workstreams and is currently on track to expend all funds by the end of the federal expenditure period on December 30, 2025.
- The federal Family First Prevention Services Act, effective October 2021, incentivizes placements into family settings by limiting the number of days children in foster care can receive reimbursement for congregate care placements. To provide County Departments of Social Services time to make this transition, DSS received \$18 million of bridge funding that will cover federal revenue losses for the next two years. DSS has disbursed \$4 million of these bridge funds as of November 2022. Starting in fiscal year 23-24, DSS will split costs evenly with counties for lost federal revenue on congregate placements exceeding fourteen days.
- North Carolina Session Law 2021-180 increased block grant funding for the Low-Income Home Energy Assistance Program to \$49.7 million in fiscal year 2021-22, and \$49.4 million in fiscal year 2022-23. DSS has accordingly issued supplemental payments to existing recipients, supported development of a web-based payment portal, and accommodated

expansion of federal eligibility for assistance. DSS plans to continue disbursement of supplemental payments into fiscal year 22-23.

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

- A total of \$36.4 million of COVID Supplemental Funding awarded to DMHDDSAS through the Consolidated Appropriations Act in the Substance Abuse Prevention and Treatment Block Grant has been approved for a one year, no-cost extension until March 14, 2024.
- DMHDDSAS received a one year, no cost extension for the \$24.0 million COVID Supplemental Funding, which was awarded through the Consolidated Appropriations Act in the Mental Health Block Grant until March 14, 2024. This additional year of funding allows time for additional services and supports to be provided for people with substance abuse needs.
- DMHDDSAS was awarded \$3.2 million by the Substance Abuse and Mental Health Administration to support the implementation of and workforce development for the 988 Suicide Prevention Lifeline in NC. The award period for this grant is April 30, 2022 through April 29, 2024.

Central Administration (CA)

- The Department continues to seek FEMA reimbursement for all allowable areas that are specific to the COVID -19 pandemic which allows management to extend other available federal grant funding. However, FEMA reimbursement for the Public Health Emergency is expected to discontinue during calendar year 2023. Regardless, the Department must outlay state funds in advance of FEMA reimbursement to support these expenses, which requires diligent cash-flow management. This could potentially impact the ability to prioritize and meet other needs across the Department.
- With the replacement of the NC Financial System within the next 2-3 years, management must ensure that multiple subsystems supporting the Department and local government entities are compatible. This may require additional funds for upgrades and/or replacement of subsystems.

Disability Determination Services (DDS)

- The DDS has noted continued decreased levels of receipts for disability applications for Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI), and Medicaid Disability Insurance. The monthly receipts received are lower than pre-COVID averages. With improvement in health and safety in our State the applications for SSI, SSDI, and Medicaid Disability Insurance are expected to increase.
- The majority of DDS funding is at the federal level. The overall amount of federal funding expected in fiscal year 2023 is consistent with what was received during fiscal year 2022. Additionally, there was an approximately \$65.0 million (5%) increase in personnel and other costs paid to providers.

Other Divisions

Office of Rural Health (ORH)

- ORH continues to seek sustained funding for its Health Information Technology (HIT) program. The HIT Team was established in 2017 with federal Health Information Technology for Economic and Clinical Health (HITECH) funds that ended on September 30, 2021. Currently, all ORH HIT staff are supported through a CDC Health Equity grant. This federal grant will end in May 2023. If no replacement funding is identified, the ORH HIT team will dissolve. The HIT team provides critical technical assistance with telehealth adoption in rural primary care practices, hospitals, local health departments, and other safety net organizations. The 2023-2025 Expansion request from ORH includes a request to sustain this program through state appropriations.

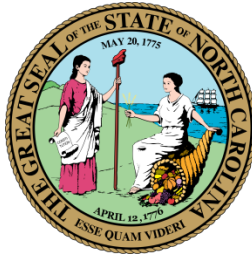
Division of Child and Family Well-Being (DCFW)

Food and Nutrition Services

- Received 2023 ARPA funding in the amount of \$15.4 million in federal funds to support county operation and technology enhancements.

Community Nutrition Services

- Within fiscal year 2023, the section expects to award the electronic benefit transfer system (eWIC) vendor contract and the Infant Formula Rebate contract, estimated at \$50 million per year in revenue.



FINANCIAL STATEMENTS

North Carolina Department of Health and Human Services
Balance Sheet
Governmental Funds
June 30, 2022

Exhibit A-1

	General Fund	Other Governmental Funds (1)	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents (Note 2)	\$ 914,475,667	\$ 100,988,741	\$ 1,015,464,408
Receivables:			
Accounts Receivable, Net (Note 4)	159,422,892	483,319	159,906,211
Intergovernmental Receivables (Note 4)	1,277,975,560	714,927	1,278,690,487
Other Receivables	131,765	66,709	198,474
Due from Other Funds	707,687	1,575	709,262
Due from Component Units	524,740		524,740
Inventories	11,919,320	217,529	12,136,849
Advances to Outside Entities	2,130,648		2,130,648
Total Assets	2,367,288,279	102,472,800	2,469,761,079
DEFERRED OUTFLOWS OF RESOURCES	0	0	0
Total Assets and Deferred Outflows	\$ 2,367,288,279	\$ 102,472,800	\$ 2,469,761,079
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 356,929,898	\$ 2,776,621	\$ 359,706,519
Intergovernmental Payables (Note 6)	437,795,343	35,933	437,831,276
Medical Claims Payable (Note 7)	1,072,780,998	367,184	1,073,148,182
Due to Other State Agencies and Funds	68,211,485		68,211,485
Due to State of North Carolina Component Units	4,298,572	39,973	4,338,545
Other Liabilities	129	7,495	7,624
Total Liabilities	1,940,016,425	3,227,206	1,943,243,631
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	21,395,323	0	21,395,323
FUND BALANCES			
Nonspendable Inventories	11,919,320	217,529	12,136,849
Restricted for Health and Human Services	112,869,915	1,671,475	114,541,390
Committed to Health and Human Services	652,426,377	95,778,411	748,204,788
Assigned to Health and Human Services	6,522,425	1,604,218	8,126,643
Unassigned	(377,861,506)	(26,039)	(377,887,545)
Total Fund Balances	405,876,531	99,245,594	505,122,125
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 2,367,288,279	\$ 102,472,800	\$ 2,469,761,079

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, 2022

Exhibit A-2

	General Fund	Other Governmental Funds (1)	Total Governmental Funds
REVENUES			
Federal Funds	\$ 21,074,769,356	\$ 64,943,875	\$ 21,139,713,231
Federal COVID-19 Funds	3,397,146,876	2,033	3,397,148,909
Local Funds	108,099,556		108,099,556
Sales and Services	2,050,527	1,371,265	3,421,792
Net Patient Service Revenue (Note 10)	39,417,599		39,417,599
Fees, Licenses, and Fines (Note 11)	176,075,390	2,973,309	179,048,699
Contributions, Gifts and Grants	221,308,792	287,431	221,596,223
Revenues from Other State Agencies (Note 12)	291,392,704	38,389,933	329,782,637
Miscellaneous Revenues	119,662,514	59,082	119,721,596
Total Revenues	25,429,923,314	108,026,928	25,537,950,242
EXPENDITURES			
Salaries and Benefits	1,215,438,181	48,370,343	1,263,808,524
Contracted Personal Services	1,344,315,195	16,967,957	1,361,283,152
Supplies and Materials	105,624,409	562,800	106,187,209
Travel	4,266,285	11,512	4,277,797
Communication	13,310,050	619,792	13,929,842
Utilities	17,345,499	21,444	17,366,943
Data Processing Services	18,557,938	4,792	18,562,730
Other Services	21,289,412	695,307	21,984,719
Lease Expenditures:			
Principal Payments	14,243,661	1,966,036	16,209,697
Interest and Fees	2,806,108	562,572	3,368,680
Other Fixed Charges	56,810,246	77,038	56,887,284
Capital Outlay	54,955,148	7,927,517	62,882,665
Grants, State Aid, and Subsidies (Exhibit N-1)	27,866,993,286	12,701,541	27,879,694,827
Expenditures to Other State Agencies (Note 12)	232,694,937		232,694,937
Other Expenditures	24,016,779	81,102	24,097,881
Total Expenditures	30,992,667,134	90,569,753	31,083,236,887
Excess of Revenues Over (Under) Expenditures	(5,562,743,820)	17,457,175	(5,545,286,645)
OTHER FINANCING SOURCES (USES)			
State Appropriations	5,709,683,356		5,709,683,356
Transfers In (Note 13)	649,665,079	14,366,026	664,031,105
Transfers Out (Note 13)	(649,978,249)	(14,052,856)	(664,031,105)
Transfers from State Reserve Fund	940,465,489		940,465,489
Transfers to State Reserve Fund	(520,703,862)		(520,703,862)
Leases Issued	28,382,209		28,382,209
Other	231,735	4,959	236,694
Total Other Financing Sources	6,157,745,757	318,129	6,158,063,886
Net Change in Fund Balances	595,001,937	17,775,304	612,777,241
Fund Balances - Beginning of Year, as Restated (Note 19)	(189,125,406)	81,470,290	(107,655,116)
Fund Balances - End of Year	\$ 405,876,531	\$ 99,245,594	\$ 505,122,125

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, 2022

Exhibit B-1

	Central Administration (1)	Health Benefits (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)	Aging (6)	Blind/ Deaf Services (7)	Vocational Rehabilitation (8)	Social Services (9)	Mental Health (10)	Total Governmental Funds
ASSETS											
Cash and Cash Equivalents	\$ 295,494,720	\$ 515,305,546	\$ 0	\$ 38,464,663	\$ 65,408,755	\$ 57,500	\$ 7,633,738	\$ 271,122	\$ 10,728,234	\$ 82,100,130	\$ 1,015,464,408
Receivables:											
Accounts Receivable, Net (Note 4)	2,669	101,312,111	9,854,108	1,042,173	5,060,696	216	267,614	19,701	6,383,173	35,963,750	159,906,211
Intergovernmental Receivables (Note 4)	49,375,339	858,879,817	183,619,247	3,411,674	41,872,458	7,414,496	623,038	4,731,441	112,878,504	15,884,473	1,278,690,487
Other Receivables										198,474	198,474
Due from Other Funds	21,318	349,003					48,418	1,575	287,347	1,601	709,262
Due from Component Units						524,740					524,740
Inventories	251,364	55,220	11,958	17,696	3,668,010	3,070	15,326	323,664	10,069	7,780,472	12,136,849
Advances to Outside Entities	2,130,648										2,130,648
Total Assets	347,276,058	1,475,901,697	193,485,313	42,936,206	116,009,919	8,000,022	8,588,134	5,347,503	130,287,327	141,928,900	2,469,761,079
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0	0	0	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 347,276,058	\$ 1,475,901,697	\$ 193,485,313	\$ 42,936,206	\$ 116,009,919	\$ 8,000,022	\$ 8,588,134	\$ 5,347,503	\$ 130,287,327	\$ 141,928,900	\$ 2,469,761,079
LIABILITIES											
Accounts Payable and Accrued Liabilities											
Accounts Payable	\$ 82,209,296	\$ 19,615,298	\$ 178,675,136	\$ 4,304,608	\$ 25,353,498	\$ 1,769,960	\$ 801,965	\$ 5,731,920	\$ 19,612,605	\$ 21,632,233	\$ 359,706,519
Intergovernmental Payables (Note 6)	176,166,599	134,795,608	9,143,660	50,541	17,604,556	13,818,574	28,911	150,256	85,795,521	277,050	437,831,276
Medical Claims Payable (Note 7)		1,063,476,572			359,713		172,144	300,135		8,839,618	1,073,148,182
Due to Other State Agencies and Funds	6,829,567	8,305,422	91,340	36,914	44,223,287	67,369	105,236	102,908	5,248,096	3,201,346	68,211,485
Due to State of North Carolina Component Units		1,457,778	146,750	20,907	1,131,983	736,692	9,690	15	453,056	381,674	4,338,545
Other Liabilities		129								7,495	7,624
Total Liabilities	265,205,462	1,227,650,807	188,056,886	4,412,970	88,673,037	16,392,595	1,117,946	6,285,234	111,109,278	34,339,416	1,943,243,631
DEFERRED INFLOWS OF RESOURCES											
Unavailable Revenue	0	0	16,025	907,084	3,619,578	0	4,881	0	673,373	16,174,382	21,395,323
FUND BALANCES											
Nonspendable Inventories	251,364	55,220	11,958	17,696	3,668,010	3,070	15,326	323,664	10,069	7,780,472	12,136,849
Restricted for Health and Human Services	259	41,784,224	9,732,003	32,163,209	12,705,161		520,223	240,308	16,030,161	1,365,842	114,541,390
Committed to Health and Human Services	121,544,152	473,966,143		5,577,782	57,815,382	52,500	7,165,145		3,852,255	78,231,429	748,204,788
Assigned to Health and Human Services	3,919,333			2,603,092			3,468			1,600,750	8,126,643
Unassigned	(43,644,512)	(267,554,697)	(4,331,559)	(2,745,627)	(50,471,249)	(8,448,143)	(238,855)	(1,501,703)	(1,387,809)	2,436,609	(377,887,545)
Total Fund Balances	82,070,596	248,250,890	5,412,402	37,616,152	23,717,304	(8,392,573)	7,465,307	(937,731)	18,504,676	91,415,102	505,122,125
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 347,276,058	\$ 1,475,901,697	\$ 193,485,313	\$ 42,936,206	\$ 116,009,919	\$ 8,000,022	\$ 8,588,134	\$ 5,347,503	\$ 130,287,327	\$ 141,928,900	\$ 2,469,761,079

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

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

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, 2022

Exhibit B-2

	Central Administration (1)	Health Benefits (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)	Aging (6)	Blind/ Deaf Services (7)	Vocational Rehabilitation (8)	Social Services (9)	Mental Health (10)	Total Governmental Funds
REVENUES											
Federal Funds	\$ 127,364,637	\$ 12,746,654,738	\$ 421,934,319	\$ 30,683,084	\$ 470,857,974	\$ 80,994,170	\$ 16,893,236	\$ 151,435,531	\$ 6,437,792,489	\$ 655,103,053	\$ 21,139,713,231
Federal COVID-19 Funds	641,150,483	1,574,661,129	843,118,270	1,011,657	174,074,417	20,421,090	533,785	341,342	133,191,282	8,645,454	3,397,148,909
Local Funds	485,858			760,811		17,894,475	641,721	2,360,685	83,295,443	2,660,563	108,099,556
Sales and Services				486,054	1,260,120		509,600	303,887		862,131	3,421,792
Net Patient Service Revenue (Note 10)										39,417,599	39,417,599
Fees, Licenses, and Fines (Note 11)	657,730	134,099,289	2,430,983	15,933,120	22,466,906		2,461,126		355,085	644,460	179,048,699
Contributions, Gifts and Grants	217,517,917	575,478		1,980,044	10,000		12,227			1,500,557	221,596,223
Revenues from Other State Agencies (Note 12)	18,873,814	125,876,156	78,880,648	1,135,320	17,633,371	232,650	8,322,568	1,645,662	21,008,827	56,173,621	329,782,637
Miscellaneous Revenues	715,172	29,109,467	5,223	18,284	70,609,858	560	274,486	7,153,425	11,549,084	286,037	119,721,596
Total Revenues	1,006,765,611	14,610,976,257	1,346,369,443	50,028,330	758,882,690	119,552,945	29,648,749	163,240,532	6,687,192,210	765,293,475	25,537,950,242
EXPENDITURES											
Salaries and Benefits	101,921,891	43,508,547	24,024,141	49,367,695	146,766,928	6,476,314	21,605,123	106,324,465	26,229,267	737,584,153	1,263,808,524
Contracted Personal Services	810,633,237	329,017,740	9,009,916	3,396,682	75,310,074	1,020,822	3,711,385	18,548,149	28,664,699	81,970,448	1,361,283,152
Supplies and Materials	12,984,230	83,931	1,374,949	222,800	43,421,302	19,950	198,780	664,238	271,851	46,945,178	106,187,209
Travel	226,238	55,075	271,365	1,877,725	707,566	31,535	320,010	317,584	222,835	247,864	4,277,797
Communication	2,989,769	562,428	400,090	846,028	2,640,851	67,853	641,861	2,532,875	1,208,734	2,039,353	13,929,842
Utilities	3,327,520			7,735	278,451		17,140	393,353		13,342,744	17,366,943
Data Processing Services	16,154,935	184,920	375,720	18,463	946,279			4,792	260,244	617,377	18,562,730
Other Services	4,039,826	236,885	143,656	956,036	6,085,671	47,677	384,469	646,866	6,038,634	3,404,999	21,984,719
Lease Expenditures:											
Principal Payments	2,436,032		457,797	168,829	6,074,486		511,068	4,876,504	56,592	1,628,389	16,209,697
Interest and Fees	91,954		164,803	43,152	1,301,370		146,638	1,523,539	12,430	84,794	3,368,680
Other Fixed Charges	41,191,238	311,665	1,921,648	595,447	3,844,942	30,360	219,131	359,909	1,595,581	6,817,363	56,887,284
Capital Outlay	9,594,016	385,760	88,514	856,033	20,877,852	214,782	937,532	16,490,695	847,330	12,590,151	62,882,665
Grants, State Aid, and Subsidies (Exhibit N-1)	108,474,240	17,998,944,158	1,521,925,047	14,589,707	605,945,671	165,831,447	10,819,385	61,165,074	6,793,230,385	598,769,713	27,879,694,827
Expenditures to Other State Agencies (Note 12)	5,867,606	219,429,891		6,703,525				393,915		300,000	232,694,937
Other Expenditures	1,023,549	399,786	4,334,507	1,220,398	1,700,273	104,832	569,605	1,352,032	1,887,917	11,504,982	24,097,881
Total Expenditures	1,120,956,281	18,593,120,786	1,564,492,153	80,870,255	915,901,716	173,845,572	40,082,127	215,200,075	6,860,920,414	1,517,847,508	31,083,236,887
Excess of Revenues Over (Under) Expenditures	(114,190,670)	(3,982,144,529)	(218,122,710)	(30,841,925)	(157,019,026)	(54,292,627)	(10,433,378)	(51,959,543)	(173,728,204)	(752,554,033)	(5,545,286,645)
OTHER FINANCING SOURCES (USES)											
State Appropriations	195,277,271	3,990,209,081	229,746,523	24,643,031	166,053,969	48,040,205	7,665,013	34,728,813	203,613,217	809,706,233	5,709,683,356
Transfers In	151,641,834	198,658,726		1,021,905	54,867,045	2,385,555	13,592,462	4,598,464	9,265,497	227,999,617	664,031,105
Transfers Out	(31,974,056)	(279,762,063)	(6,639,125)	(4,381,532)	(52,458,121)	(2,222)	(14,008,253)	(2,373,753)	(12,722,508)	(259,709,472)	(664,031,105)
Transfers from State Reserve Fund	47,217,006	869,542,164	2,383,442	1,692,683	2,877,988	387,264		20,987	7,019,079	9,324,876	940,465,489
Transfers to State Reserve Fund	(123,852,067)	(351,425,433)	(1,590,026)	(858,464)	(6,628,794)	(747,633)		(218,509)	(20,293,104)	(15,089,832)	(520,703,862)
Leases Issued	868,930			11,480,455			762,478	14,645,498	624,848		28,382,209
Other	855			521	104,441	65	986	3,684		126,142	236,694
Total Other Financing Sources	239,179,773	4,427,222,475	223,900,814	22,118,144	176,296,983	50,063,234	8,012,686	51,405,184	187,507,029	772,357,564	6,158,063,886
Net Change in Fund Balances	124,989,103	445,077,946	5,778,104	(8,723,781)	19,277,957	(4,229,393)	(2,420,692)	(554,359)	13,778,825	19,803,531	612,777,241
Fund Balances - Beginning of Year, as Restated (Note 19)	(42,918,507)	(196,827,056)	(365,702)	46,339,933	4,439,347	(4,163,180)	9,885,999	(383,372)	4,725,851	71,611,571	(107,655,116)
Fund Balances - End of Year	\$ 82,070,596	\$ 248,250,890	\$ 5,412,402	\$ 37,616,152	\$ 23,717,304	\$ (8,392,573)	\$ 7,465,307	\$ (937,731)	\$ 18,504,676	\$ 91,415,102	\$ 505,122,125

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

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

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Central Administration
June 30, 2022

Exhibit C-1

	General Fund	Capital Projects Fund	Total Central Administration
ASSETS			
Cash and Cash Equivalents	\$ 286,710,940	\$ 8,783,780	\$ 295,494,720
Receivables:			
Accounts Receivable, Net (Note 4)	2,669		2,669
Intergovernmental Receivables	49,375,339		49,375,339
Due from Other Funds	21,318		21,318
Inventories	251,364		251,364
Advances to Outside Entities	2,130,648		2,130,648
Total Assets	338,492,278	8,783,780	347,276,058
DEFERRED OUTFLOWS OF RESOURCES	0	0	0
Total Assets and Deferred Outflows	\$ 338,492,278	\$ 8,783,780	\$ 347,276,058
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 81,600,831	\$ 608,465	\$ 82,209,296
Intergovernmental Payables	176,166,599		176,166,599
Due to Other State Agencies and Funds	6,829,567		6,829,567
Total Liabilities	264,596,997	608,465	265,205,462
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	0	0	0
FUND BALANCES			
Nonspendable Inventories	251,364		251,364
Restricted for Health and Human Services	259		259
Committed to Health and Human Services	113,368,837	8,175,315	121,544,152
Assigned to Health and Human Services	3,919,333		3,919,333
Unassigned	(43,644,512)		(43,644,512)
Total Fund Balances	73,895,281	8,175,315	82,070,596
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 338,492,278	\$ 8,783,780	\$ 347,276,058

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, 2022

Exhibit C-2

	General Fund	Capital Projects Fund	Total Central Administration
REVENUES			
Federal Funds	\$ 127,364,637	\$ 0	\$ 127,364,637
Federal COVID-19 Funds	641,150,483		641,150,483
Local Funds	485,858		485,858
Fees, Licenses, and Fines	657,730		657,730
Contributions, Gifts and Grants	217,517,917		217,517,917
Revenues from Other State Agencies (Note 12)	13,796,814	5,077,000	18,873,814
Miscellaneous Revenues	715,172		715,172
Total Revenues	1,001,688,611	5,077,000	1,006,765,611
EXPENDITURES			
Salaries and Benefits	101,921,891		101,921,891.00
Contracted Personal Services	810,633,237		810,633,237
Supplies and Materials	12,984,230		12,984,230
Travel	226,238		226,238
Communication	2,989,769		2,989,769
Utilities	3,327,520		3,327,520
Data Processing Services	16,154,935		16,154,935
Other Services	4,039,826		4,039,826
Lease Expenditures:			
Principal Payments	2,436,032		2,436,032
Interest and Fees	91,954		91,954
Other Fixed Charges	41,191,238		41,191,238
Capital Outlay	4,260,305	5,333,711	9,594,016
Grants, State Aid, and Subsidies	108,474,240		108,474,240
Expenditures to Other State Agencies (Note 12)	5,867,606		5,867,606
Other Expenditures	1,023,549		1,023,549
Total Expenditures	1,115,622,570	5,333,711	1,120,956,281
Excess of Revenues Over (Under) Expenditures	(113,933,959)	(256,711)	(114,190,670)
OTHER FINANCING SOURCES (USES)			
State Appropriations	195,277,271		195,277,271
Transfers In	151,584,285	57,549	151,641,834
Transfers Out	(31,974,056)		(31,974,056)
Transfers from State Reserve Fund	47,217,006		47,217,006
Transfers to State Reserve Fund	(123,852,067)		(123,852,067)
Leases Issued	868,930		868,930
Other	855		855
Total Other Financing Sources	239,122,224	57,549	239,179,773
Net Change in Fund Balances	125,188,265	(199,162)	124,989,103
Fund Balances - Beginning of Year, as Restated (Note 19)	(51,292,984)	8,374,477	(42,918,507)
Fund Balances - End of Year	\$ 73,895,281	\$ 8,175,315	\$ 82,070,596

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, 2022

Exhibit D-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 515,305,546
Receivables:	
Accounts Receivable, Net (Note 4)	101,312,111
Intergovernmental Receivables	858,879,817
Due from Other Funds	349,003
Inventories	55,220
	<hr/>
Total Assets	1,475,901,697
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
	0
	<hr/>
Total Assets and Deferred Outflows	\$ 1,475,901,697
	<hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 19,615,298
Intergovernmental Payables	134,795,608
Medical Claims Payable (Note 7)	1,063,476,572
Due to Other State Agencies and Funds	8,305,422
Due to State of North Carolina Component Units	1,457,778
Other Liabilities	129
	<hr/>
Total Liabilities	1,227,650,807
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	0
	<hr/>
FUND BALANCE	
Nonspendable Inventories	55,220
Restricted for Health and Human Services	41,784,224
Committed to Health and Human Services	473,966,143
Unassigned	(267,554,697)
	<hr/>
Total Fund Balance	248,250,890
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 1,475,901,697
	<hr/>

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, 2022

Exhibit D-2

	General Fund
REVENUES	
Federal Funds	\$ 12,746,654,738
Federal COVID-19 Funds	1,574,661,129
Fees, Licenses, and Fines (Note 11)	134,099,289
Contributions, Gifts and Grants	575,478
Revenues from Other State Agencies (Note 12)	125,876,156
Miscellaneous Revenues	29,109,467
Total Revenues	<u>14,610,976,257</u>
EXPENDITURES	
Salaries and Benefits	43,508,547
Contracted Personal Services	329,017,740
Supplies and Materials	83,931
Travel	55,075
Communication	562,428
Data Processing Services	184,920
Other Services	236,885
Other Fixed Charges	311,665
Capital Outlay	385,760
Grants, State Aid, and Subsidies (Exhibit N-2)	17,998,944,158
Expenditures to Other State Agencies (Note 12)	219,429,891
Other Expenditures	399,786
Total Expenditures	<u>18,593,120,786</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,982,144,529)</u>
OTHER FINANCING SOURCES (USES)	
State Appropriations	3,990,209,081
Transfers In	198,658,726
Transfers Out	(279,762,063)
Transfers from State Reserve Fund	869,542,164
Transfers to State Reserve Fund	(351,425,433)
Total Other Financing Sources	<u>4,427,222,475</u>
Net Change in Fund Balance	445,077,946
Fund Balance - Beginning of Year	<u>(196,827,056)</u>
Fund Balance - End of Year	<u><u>\$ 248,250,890</u></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, 2022

Exhibit E-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 0
Receivables:	
Accounts Receivable, Net (Note 4)	9,854,108
Intergovernmental Receivables	183,619,247
Inventories	11,958
	<hr/>
Total Assets	193,485,313
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	0
	<hr/>
Total Assets and Deferred Outflows	\$ 193,485,313
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 178,675,136
Intergovernmental Payables	9,143,660
Due to Other State Agencies and Funds	91,340
Due to State of North Carolina Component Units	146,750
	<hr/>
Total Liabilities	188,056,886
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	16,025
	<hr/>
FUND BALANCES	
Nonspendable Inventories	11,958
Restricted for Health and Human Services	9,732,003
Unassigned	(4,331,559)
	<hr/>
Total Fund Balances	5,412,402
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 193,485,313
	<hr/> <hr/>

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, 2022

Exhibit E-2

	General Fund
REVENUES	
Federal Funds	\$ 421,934,319
Federal COVID-19 Funds	843,118,270
Fees, Licenses, and Fines (Note 11)	2,430,983
Revenues from Other State Agencies (Note 12)	78,880,648
Miscellaneous Revenues	5,223
Total Revenues	<u>1,346,369,443</u>
EXPENDITURES	
Salaries and Benefits	24,024,141
Contracted Personal Services	9,009,916
Supplies and Materials	1,374,949
Travel	271,365
Communication	400,090
Data Processing Services	375,720
Other Services	143,656
Lease Expenditures:	
Principal Payments	457,797
Interest and Fees	164,803
Other Fixed Charges	1,921,648
Capital Outlay	88,514
Grants, State Aid, and Subsidies (Exhibit N-3)	1,521,925,047
Other Expenditures:	
Scholarships	4,091,489
Other	243,018
Total Expenditures	<u>1,564,492,153</u>
Excess of Revenues Over (Under) Expenditures	<u>(218,122,710)</u>
OTHER FINANCING SOURCES (USES)	
State Appropriations	229,746,523
Transfers Out	(6,639,125)
Transfers from State Reserve Fund	2,383,442
Transfers to State Reserve Fund	(1,590,026)
Total Other Financing Sources	<u>223,900,814</u>
Net Change in Fund Balances	5,778,104
Fund Balances - Beginning of Year	<u>(365,702)</u>
Fund Balances - End of Year	<u><u>\$ 5,412,402</u></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, 2022

Exhibit F-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 38,464,663
Receivables:	
Accounts Receivable, Net (Note 4)	1,042,173
Intergovernmental Receivables	3,411,674
Inventories	17,696
	<hr/>
Total Assets	42,936,206
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	0
	<hr/>
Total Assets and Deferred Outflows	\$ 42,936,206
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 4,304,608
Intergovernmental Payables	50,541
Due to Other State Agencies and Funds	36,914
Due to State of North Carolina Component Units	20,907
	<hr/>
Total Liabilities	4,412,970
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	907,084
	<hr/>
FUND BALANCE	
Nonspendable Inventories	17,696
Restricted for Health and Human Services	32,163,209
Committed to Health and Human Services	5,577,782
Assigned to Health and Human Services	2,603,092
Unassigned	(2,745,627)
	<hr/>
Total Fund Balance	37,616,152
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 42,936,206
	<hr/> <hr/>

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, 2022

Exhibit F-2

	General Fund
REVENUES	
Federal Funds	\$ 30,683,084
Federal COVID-19 Funds	1,011,657
Local Funds	760,811
Sales and Services	486,054
Fees, Licenses, and Fines (Note 11)	15,933,120
Revenues from Other State Agencies	1,135,320
Miscellaneous Revenues	18,284
Total Revenues	<u>50,028,330</u>
EXPENDITURES	
Salaries and Benefits	49,367,695
Contracted Personal Services	3,396,682
Supplies and Materials	222,800
Travel	1,877,725
Communication	846,028
Utilities	7,735
Data Processing Services	18,463
Other Services	956,036
Lease Expenditures:	
Principal Payments	168,829
Interest and Fees	43,152
Other Fixed Charges	595,447
Capital Outlay	856,033
Grants, State Aid, and Subsidies	14,589,707
Expenditures to Other State Agencies (Note 12)	6,703,525
Other Expenditures	1,220,398
Total Expenditures	<u>80,870,255</u>
Excess of Revenues Over (Under) Expenditures	<u>(30,841,925)</u>
OTHER FINANCING SOURCES (USES)	
State Appropriations	24,643,031
Transfers In	1,021,905
Transfers Out	(4,381,532)
Transfers from State Reserve Fund	1,692,683
Transfers to State Reserve Fund	(858,464)
Total Other Financing Sources	<u>22,118,144</u>
Net Change in Fund Balance	(8,723,781)
Fund Balance - Beginning of Year	<u>46,339,933</u>
Fund Balance - End of Year	<u><u>\$ 37,616,152</u></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 Public Health
June 30, 2022

Exhibit G-1

	General Fund	Other Special Revenue Fund	Total Public Health
ASSETS			
Cash and Cash Equivalents	\$ 62,751,089	\$ 2,657,666	\$ 65,408,755
Receivables:			
Accounts Receivable, Net (Note 4)	5,060,696		5,060,696
Intergovernmental Receivables	41,872,458		41,872,458
Inventories	3,668,010		3,668,010
Total Assets	113,352,253	2,657,666	116,009,919
DEFERRED OUTFLOWS OF RESOURCES	0	0	0
Total Assets and Deferred Outflows	\$ 113,352,253	\$ 2,657,666	\$ 116,009,919
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 25,352,369	\$ 1,129	\$ 25,353,498
Intergovernmental Payables	17,604,556		17,604,556
Medical Claims Payable (Note 7)	359,713		359,713
Due to Other State Agencies and Funds	44,223,287		44,223,287
Due to State of North Carolina Component Units	1,131,983		1,131,983
Total Liabilities	88,671,908	1,129	88,673,037
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	3,619,578	0	3,619,578
FUND BALANCES			
Nonspendable Inventories	3,668,010		3,668,010
Restricted for Health and Human Services	12,705,161		12,705,161
Committed to Health and Human Services	55,158,845	2,656,537	57,815,382
Unassigned	(50,471,249)		(50,471,249)
Total Fund Balances	21,060,767	2,656,537	23,717,304
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 113,352,253	\$ 2,657,666	\$ 116,009,919

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, 2022

Exhibit G-2

	General Fund	Other Special Revenue Fund	Total Public Health
REVENUES			
Federal Funds	\$ 470,857,974	\$ 0	\$ 470,857,974
Federal COVID-19 Funds	174,074,417		174,074,417
Sales and Services	1,260,120		1,260,120
Fees, Licenses, and Fines (Note 11)	21,955,383	511,523	22,466,906
Contributions, Gifts and Grants	1,980,044		1,980,044
Revenues from Other State Agencies (Note 12)	17,631,756	1,615	17,633,371
Miscellaneous Revenues:			
Rebates	70,604,979		70,604,979
Other	4,879		4,879
Total Revenues	758,369,552	513,138	758,882,690
EXPENDITURES			
Salaries and Benefits	146,682,718	84,210	146,766,928
Contracted Personal Services	75,308,694	1,380	75,310,074
Supplies and Materials	43,415,529	5,773	43,421,302
Travel	703,243	4,323	707,566
Communication	2,638,490	2,361	2,640,851
Utilities	278,451		278,451
Data Processing Services	946,279		946,279
Other Services	6,080,743	4,928	6,085,671
Lease Expenditures:			
Principal Payments	6,074,486		6,074,486
Interest and Fees	1,301,370		1,301,370
Other Fixed Charges	3,843,367	1,575	3,844,942
Capital Outlay	20,876,988	864	20,877,852
Grants, State Aid, and Subsidies (Exhibit N-4)	605,945,671		605,945,671
Other Expenditures	1,700,123	150	1,700,273
Total Expenditures	915,796,152	105,564	915,901,716
Excess of Revenues Over (Under) Expenditures	(157,426,600)	407,574	(157,019,026)
OTHER FINANCING SOURCES (USES)			
State Appropriations	166,053,969		166,053,969
Transfers In	54,867,045		54,867,045
Transfers Out	(52,458,121)		(52,458,121)
Transfers from State Reserve Fund	2,877,988		2,877,988
Transfers to State Reserve Fund	(6,628,794)		(6,628,794)
Leases Issued	11,480,455		11,480,455
Other	104,441		104,441
Total Other Financing Sources	176,296,983		176,296,983
Net Change in Fund Balances	18,870,383	407,574	19,277,957
Fund Balances - Beginning of Year	2,190,384	2,248,963	4,439,347
Fund Balances - End of Year	\$ 21,060,767	\$ 2,656,537	\$ 23,717,304

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, 2022

Exhibit H-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 57,500
Receivables:	
Accounts Receivable, Net	216
Intergovernmental Receivables	7,414,496
Due from Component Units	524,740
Inventories	3,070
	<hr/>
Total Assets	8,000,022
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	0
	<hr/>
Total Assets and Deferred Outflows	\$ 8,000,022
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 1,769,960
Intergovernmental Payables	13,818,574
Due to Other State Agencies and Funds	67,369
Due to State of North Carolina Component Units	736,692
	<hr/>
Total Liabilities	16,392,595
	<hr/>
DEFERRED INFLOWS OF RESOURCES	0
	<hr/>
FUND BALANCE	
Nonspendable Inventories	3,070
Committed to Health and Human Services	52,500
Unassigned	(8,448,143)
	<hr/>
Total Fund Balance	(8,392,573)
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 8,000,022
	<hr/> <hr/>

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, 2022

Exhibit H-2

	General Fund
REVENUES	
Federal Funds	\$ 80,994,170
Federal COVID-19 Funds	20,421,090
Local Funds	17,894,475
Contributions, Gifts and Grants	10,000
Revenues from Other State Agencies	232,650
Miscellaneous Revenues	560
Total Revenues	<u>119,552,945</u>
EXPENDITURES	
Salaries and Benefits	6,476,314
Contracted Personal Services	1,020,822
Supplies and Materials	19,950
Travel	31,535
Communication	67,853
Other Services	47,677
Other Fixed Charges	30,360
Capital Outlay	214,782
Grants, State Aid, and Subsidies	165,831,447
Other Expenditures	104,832
Total Expenditures	<u>173,845,572</u>
Excess of Revenues Over (Under) Expenditures	<u>(54,292,627)</u>
OTHER FINANCING SOURCES (USES)	
State Appropriations	48,040,205
Transfers In	2,385,555
Transfers Out	(2,222)
Transfers from State Reserve Fund	387,264
Transfers to State Reserve Fund	(747,633)
Other	65
Total Other Financing Sources	<u>50,063,234</u>
Net Change in Fund Balance	(4,229,393)
Fund Balance - Beginning of Year	<u>(4,163,180)</u>
Fund Balance - End of Year	<u><u>\$ (8,392,573)</u></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, 2022

Exhibit I-1

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services
ASSETS				
Cash and Cash Equivalents	\$ 0	\$ 1,688,045	\$ 5,945,693	\$ 7,633,738
Receivables:				
Accounts Receivable, Net (Note 4)	10,186	60,862	196,566	267,614
Intergovernmental Receivables	623,038			623,038
Due from Other Funds	48,418			48,418
Inventories	15,326			15,326
Total Assets	696,968	1,748,907	6,142,259	8,588,134
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	\$ 696,968	\$ 1,748,907	\$ 6,142,259	\$ 8,588,134
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 554,528	\$ 247,437	\$ 0	\$ 801,965
Intergovernmental Payables	28,911			28,911
Medical Claims Payable (Note 7)	172,144			172,144
Due to Other State Agencies and Funds	105,236			105,236
Due to Component Units	9,690			9,690
Total Liabilities	870,509	247,437	0	1,117,946
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	4,881	0	0	4,881
FUND BALANCES				
Nonspendable Inventories	15,326			15,326
Restricted for Health and Human Services	45,107	475,116		520,223
Committed to Health and Human Services		1,022,886	6,142,259	7,165,145
Assigned to Health and Human Services		3,468		3,468
Unassigned	(238,855)			(238,855)
Total Fund Balances	(178,422)	1,501,470	6,142,259	7,465,307
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 696,968	\$ 1,748,907	\$ 6,142,259	\$ 8,588,134

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, 2022

Exhibit I-2

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services
REVENUES				
Federal Funds	\$ 16,136,300	\$ 756,936	\$ 0	\$ 16,893,236
Federal COVID-19 Funds	533,785			533,785
Local Funds	641,721			641,721
Sales and Services	466	509,134		509,600
Fees, Licenses, and Fines (Note 11)			2,461,126	2,461,126
Contributions, Gifts and Grants	11,842	385		12,227
Revenues from Other State Agencies (Note 12)	453,207		7,869,361	8,322,568
Miscellaneous Revenues	261,393		13,093	274,486
Total Revenues	18,038,714	1,266,455	10,343,580	29,648,749
EXPENDITURES				
Salaries and Benefits	21,605,123			21,605,123
Contracted Personal Services	3,703,980	7,405		3,711,385
Supplies and Materials	169,947	28,833		198,780
Travel	320,010			320,010
Communication	641,861			641,861
Utilities	17,140			17,140
Other Services	97,099	287,370		384,469
Lease Expenditures:				
Principal Payments	511,068			511,068
Interest and Fees	146,638			146,638
Other Fixed Charges	218,385	746		219,131
Capital Outlay	888,022	49,510		937,532
Grants, State Aid, and Subsidies	10,247,807	571,578		10,819,385
Other Expenditures	566,149	3,456		569,605
Total Expenditures	39,133,229	948,898	0	40,082,127
Excess of Revenues Over (Under) Expenditures	(21,094,515)	317,557	10,343,580	(10,433,378)
OTHER FINANCING SOURCES (USES)				
State Appropriations	7,665,013			7,665,013
Transfers In	13,592,462			13,592,462
Transfers Out	(157,078)	(167,090)	(13,684,085)	(14,008,253)
Leases Issued	762,478			762,478
Other		986		986
Total Other Financing Sources (Uses)	21,862,875	(166,104)	(13,684,085)	8,012,686
Net Change in Fund Balances	768,360	151,453	(3,340,505)	(2,420,692)
Fund Balances - Beginning of Year	(946,782)	1,350,017	9,482,764	9,885,999
Fund Balances - End of Year	\$ (178,422)	\$ 1,501,470	\$ 6,142,259	\$ 7,465,307

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, 2022

Exhibit J-1

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation
ASSETS				
Cash and Cash Equivalents	\$ 7,680	\$ 263,442	\$ 0	\$ 271,122
Receivables:				
Accounts Receivable, Net	19,656	45		19,701
Intergovernmental Receivables	4,020,514	710,927		4,731,441
Due from Other Funds		1,575		1,575
Inventories	132,174	191,490		323,664
Total Assets	4,180,024	1,167,479	0	5,347,503
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	\$ 4,180,024	\$ 1,167,479	\$ 0	\$ 5,347,503
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 5,024,507	\$ 707,413	\$ 0	\$ 5,731,920
Intergovernmental Payables	114,323	35,933		150,256
Medical Claims Payable (Note 7)	300,135			300,135
Due to Other State Agencies and Funds	102,908			102,908
Due to Component Units		15		15
Total Liabilities	5,541,873	743,361	0	6,285,234
DEFERRED INFLOWS OF RESOURCES	0	0	0	0
FUND BALANCES				
Nonspendable Inventories	132,174	191,490		323,664
Restricted for Health and Human Services	7,680	232,628		240,308
Unassigned	(1,501,703)			(1,501,703)
Total Fund Balances	(1,361,849)	424,118	0	(937,731)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 4,180,024	\$ 1,167,479	\$ 0	\$ 5,347,503

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, 2022

Exhibit J-2

	General Fund	Disability Determination Fund	Capital Projects Fund	Total Vocational Rehabilitation
REVENUES				
Federal Funds	\$ 87,248,592	\$ 64,186,939	\$ 0	\$ 151,435,531
Federal COVID-19 Funds	339,309	2,033		341,342
Local Funds	2,360,685			2,360,685
Sales and Services	303,887			303,887
Revenues from Other State Agencies	1,645,662			1,645,662
Miscellaneous Revenues	7,151,422	2,003		7,153,425
Total Revenues	99,049,557	64,190,975	0	163,240,532
EXPENDITURES				
Salaries and Benefits	58,340,417	47,984,048		106,324,465
Contracted Personal Services	2,195,555	16,352,594		18,548,149
Supplies and Materials	508,121	156,117		664,238
Travel	310,939	6,645		317,584
Communication	1,958,157	574,718		2,532,875
Utilities	393,353			393,353
Data Processing Services		4,792		4,792
Other Services	377,044	269,822		646,866
Lease Expenditures:				
Principal Payments	2,910,468	1,966,036		4,876,504
Interest and Fees	960,967	562,572		1,523,539
Other Fixed Charges	294,088	65,821		359,909
Capital Outlay	16,480,391	10,304		16,490,695
Grants, State Aid, and Subsidies	61,023,156	141,918		61,165,074
Expenditures to Other State Agencies (Note 12)				
Other Expenditures	1,349,439	2,593		1,352,032
Total Expenditures	147,102,095	68,097,980	0	215,200,075
Excess of Revenues Over (Under) Expenditures	(48,052,538)	(3,907,005)	0	(51,959,543)
OTHER FINANCING SOURCES (USES)				
State Appropriations	34,728,813			34,728,813
Transfers In	359,170	4,239,294		4,598,464
Transfers Out	(2,359,032)		(14,721)	(2,373,753)
Transfers from State Reserve Fund	20,987			20,987
Transfers to State Reserve Fund	(218,509)			(218,509)
Leases Issued	14,645,498			14,645,498
Other	3,221	463		3,684
Total Other Financing Sources (Uses)	47,180,148	4,239,757	(14,721)	51,405,184
Net Change in Fund Balances	(872,390)	332,752	(14,721)	(554,359)
Fund Balances - Beginning of Year	(489,459)	91,366	14,721	(383,372)
Fund Balances - End of Year	\$ (1,361,849)	\$ 424,118	\$ 0	\$ (937,731)

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, 2022

Exhibit K-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 10,728,234
Receivables:	
Accounts Receivable, Net (Note 4)	6,383,173
Intergovernmental Receivables	112,878,504
Due from Other Funds	287,347
Inventories	10,069
	<hr/>
Total Assets	130,287,327
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	0
	<hr/>
Total Assets and Deferred Outflows	\$ 130,287,327
	<hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 19,612,605
Intergovernmental Payables	85,795,521
Due to Other State Agencies and Funds	5,248,096
Due to State of North Carolina Component Units	453,056
	<hr/>
Total Liabilities	111,109,278
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	673,373
	<hr/>
FUND BALANCE	
Nonspendable Inventories	10,069
Restricted for Health and Human Services	16,030,161
Committed to Health and Human Services	3,852,255
Unassigned	(1,387,809)
	<hr/>
Total Fund Balance	18,504,676
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 130,287,327
	<hr/>

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, 2022

Exhibit K-2

	General Fund
REVENUES	
Federal Funds	\$ 6,437,792,489
Federal COVID-19 Funds	133,191,282
Local Funds	83,295,443
Fees, Licenses, and Fines	355,085
Revenues from Other State Agencies (Note 12)	21,008,827
Miscellaneous Revenues	11,549,084
	<hr/>
Total Revenues	6,687,192,210
	<hr/>
EXPENDITURES	
Salaries and Benefits	26,229,267
Contracted Personal Services	28,664,699
Supplies and Materials	271,851
Travel	222,835
Communication	1,208,734
Data Processing Services	260,244
Other Services	6,038,634
Lease Expenditures:	
Principal Payments	56,592
Interest and Fees	12,430
Other Fixed Charges	1,595,581
Capital Outlay	847,330
Grants, State Aid, and Subsidies (Exhibit N-5)	6,793,230,385
Expenditures to Other State Agencies (Note 12)	393,915
Other Expenditures	1,887,917
	<hr/>
Total Expenditures	6,860,920,414
	<hr/>
Excess of Revenues Over (Under) Expenditures	(173,728,204)
	<hr/>
OTHER FINANCING SOURCES (USES)	
State Appropriations	203,613,217
Transfers In	9,265,497
Transfers Out	(12,722,508)
Transfers from State Reserve Fund	7,019,079
Transfers to State Reserve Fund	(20,293,104)
Leases Issued	624,848
	<hr/>
Total Other Financing Sources	187,507,029
	<hr/>
Net Change in Fund Balance	13,778,825
Fund Balance - Beginning of Year	4,725,851
	<hr/>
Fund Balance - End of Year	\$ 18,504,676
	<hr/>

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, 2022

Exhibit L-1

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health
ASSETS				
Cash and Cash Equivalents	\$ 450,015	\$ 81,282,561	\$ 367,554	\$ 82,100,130
Receivables:				
Accounts Receivable, Net (Note 4)	35,737,904	225,846		35,963,750
Intergovernmental Receivables	15,880,473	4,000		15,884,473
Other Receivables	131,765	66,709		198,474
Due from Other Funds	1,601			1,601
Inventories	7,754,433	26,039		7,780,472
Total Assets	59,956,191	81,605,155	367,554	141,928,900
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0
Total Assets and Deferred Outflows	\$ 59,956,191	\$ 81,605,155	\$ 367,554	\$ 141,928,900
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 20,420,056	\$ 919,889	\$ 292,288	\$ 21,632,233
Intergovernmental Payables	277,050			277,050
Medical Claims Payable (Note 7)	8,472,434	367,184		8,839,618
Due to Other State Agencies and Funds	3,201,346			3,201,346
Due to State of North Carolina Component Units	341,716	39,958		381,674
Other Liabilities		7,495		7,495
Total Liabilities	32,712,602	1,334,526	292,288	34,339,416
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	16,174,382	0	0	16,174,382
FUND BALANCES				
Nonspendable Inventories	7,754,433	26,039		7,780,472
Restricted for Health and Human Services	402,111	963,731		1,365,842
Committed to Health and Human Services	450,015	77,706,148	75,266	78,231,429
Assigned to Health and Human Services		1,600,750		1,600,750
Unassigned	2,462,648	(26,039)		2,436,609
Total Fund Balances	11,069,207	80,270,629	75,266	91,415,102
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 59,956,191	\$ 81,605,155	\$ 367,554	\$ 141,928,900

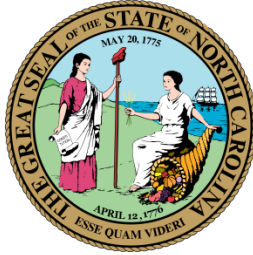
The accompanying notes to the financial statements are an integral part of this statement.

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, 2022

Exhibit L-2

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health
REVENUES				
Federal Funds	\$ 655,103,053	\$ 0	\$ 0	\$ 655,103,053
Federal COVID-19 Funds	8,645,454			8,645,454
Local Funds	2,660,563			2,660,563
Sales and Services		862,131		862,131
Net Patient Service Revenue (Note 10)	39,417,599			39,417,599
Fees, Licenses, and Fines (Note 11)	643,800	660		644,460
Contributions, Gifts and Grants	1,213,511	287,046		1,500,557
Revenues from Other State Agencies (Note 12)	30,731,664	25,179,963	261,994	56,173,621
Miscellaneous Revenues	242,051	43,986		286,037
Total Revenues	738,657,695	26,373,786	261,994	765,293,475
EXPENDITURES				
Salaries and Benefits	737,282,068	302,085		737,584,153
Contracted Personal Services	81,363,870	606,578		81,970,448
Supplies and Materials	46,573,101	372,077		46,945,178
Travel	247,320	544		247,864
Communication	1,996,640	42,713		2,039,353
Utilities	13,321,300	21,444		13,342,744
Data Processing Services	617,377			617,377
Other Services	3,271,812	133,187		3,404,999
Lease Expenditures:				
Principal Payments	1,628,389			1,628,389
Interest and Fees	84,794			84,794
Other Fixed Charges	6,808,467	8,896		6,817,363
Capital Outlay	10,057,023	78,487	2,454,641	12,590,151
Grants, State Aid, and Subsidies (Exhibit N-6)	586,781,668	11,988,045		598,769,713
Expenditures to Other State Agencies (Note 12)	300,000			300,000
Other Expenditures	11,430,079	74,903		11,504,982
Total Expenditures	1,501,763,908	13,628,959	2,454,641	1,517,847,508
Excess of Revenues Over (Under) Expenditures	(763,106,213)	12,744,827	(2,192,647)	(752,554,033)
OTHER FINANCING SOURCES (USES)				
State Appropriations	809,706,233			809,706,233
Transfers In	217,930,434	10,069,183		227,999,617
Transfers Out	(259,522,512)	(144,132)	(42,828)	(259,709,472)
Transfers from State Reserve Fund	9,324,876			9,324,876
Transfers to State Reserve Fund	(15,089,832)			(15,089,832)
Other	122,632	3,510		126,142
Total Other Financing Sources	762,471,831	9,928,561	(42,828)	772,357,564
Net Change in Fund Balances	(634,382)	22,673,388	(2,235,475)	19,803,531
Fund Balances - Beginning of Year	11,703,589	57,597,241	2,310,741	71,611,571
Fund Balances - End of Year	\$ 11,069,207	\$ 80,270,629	\$ 75,266	\$ 91,415,102

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 *Annual Comprehensive Financial Report* as a part of the State's General Fund and Other Governmental Funds.

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

Central Administration - This division provides overall support to the Department including, but not limited to, the following offices: controller, budget and analysis, general counsel, human resources, internal audit, privacy and security, procurement, property and construction, and communications. 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 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 childcare and increases access to families and their children across the State. The division also includes any remaining activity of the Office of Educational Services.

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

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

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

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

Vocational Rehabilitation - This division provides counseling, training, education, transportation, job placement, assistive technology, and other support services to people with disabilities. The division also includes the disability determination activity.

Social Services - This division provides guidance and technical assistance to agencies that provide direct services related to poverty, family violence, and exploitation of vulnerable individuals, children, and their families.

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

- 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 *Annual Comprehensive 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 *Annual Comprehensive 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 for government 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 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 are reported under the following classifications for the proceeds of specific revenue sources (other than special assessments or capital projects) that are legally restricted to expenditures for specified purposes.

- **North Carolina Dual Party System Fund** - This fund helps hearing or speech-impaired individuals communicate via telephone.
- **Disability Determination Fund** - This fund represents Disability Determination Services for Social Security and Medicaid disability claims.

- **Other Special Revenue Funds** - These funds account for all other proceeds of specific revenue sources not separately identified above.

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. For this purpose, 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 the payment is not due until the subsequent period.

Because capital asset and long-term liability accounts relating to the governmental funds are reported only at the statewide level, these amounts are not included in the Department's governmental fund financial statements. However, these amounts are reported in the Department's 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, 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 and are considered fully collectible; accordingly, no allowance for doubtful accounts has been 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 due to other funds of the Department or state agencies. All amounts are considered collectible; accordingly, no allowance for doubtful accounts has been 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 - Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

J. Payables - Accounts payable includes amounts due to individuals, companies, and third-party providers in connection with the ordinary course of business.

Intergovernmental payables include amounts due to the federal government, and state and local governments in connection with the ordinary course of business.

K. Fund Balance - Fund balance is reported in the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent.

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

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

Committed Fund Balances - Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina General Assembly establishes commitments through the passage of legislation that

becomes state law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

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

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

The Department considers an expenditure to be made from the most restrictive resource (i.e., restricted, committed, assigned, and unassigned in that order) when more than one fund balance classification is available for use.

L. Revenues and Expenditures from/to Other State Agencies - Revenues and expenditures from/to other State agencies represent amounts 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 *Annual Comprehensive Financial Report*.

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 the 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. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, 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.

O. 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.

NOTE 2 - DEPOSITS

Unless specifically exempt, the Department is 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, 2022 the Balance Sheet reported cash and cash equivalents of \$1,015,464,408, which represents the Department's equity position in the State Treasurer's Short-Term Investment Fund (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 0.9 years as of June 30, 2022. 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, 2022. 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 June 30, 2022, cash and cash equivalents valued at \$1,015,464,408 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 Statement No. 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, 2022 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Accounts Receivable:			
Health Benefits	\$ 578,141,712	\$ 476,829,601	\$ 101,312,111
Child Development	9,904,137	50,029	9,854,108
Health Services Regulation	3,770,705	2,728,532	1,042,173
Public Health	6,037,936	977,240	5,060,696
Blind/Deaf Services	284,546	16,932	267,614
Social Services	129,321,286	122,938,113	6,383,173
Mental Health	299,971,445	264,007,695	35,963,750
Other Divisions	111,183	88,597	22,586
Total Accounts Receivable	\$ 1,027,542,950	\$ 867,636,739	\$ 159,906,211

For the Division of Health Benefits, accounts receivable primarily consists of cost settlements, 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, 2022 were as follows:

	Amount
Intergovernmental Receivables:	
Due from Federal Agencies:	
Department of Health and Human Services	\$ 1,235,406,538
Department of Agriculture	27,214,975
Department of Education	7,921,730
Social Security Administration	4,344,174
Department of Housing and Urban Development	2,555,397
Other	255,540
Due from County and Local Agencies	992,133
Total Intergovernmental Receivables	\$ 1,278,690,487

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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Right-to-use lease assets are recorded at the present value of payments expected to be made during the lease term plus any upfront payments and ancillary charges paid to place the lease asset into service.

Generally, the Department capitalizes assets that have a value or cost \$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. Lease payables are capitalized as a right-to-use asset when the leased asset has a cost of \$10,000 or greater and an estimated useful life of more than one year.

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

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

Amortization for right-to-use leased assets is computed using the straight-line method over the shorter of the lease term or the asset's estimated useful life, unless the lease contains a purchase option the Department is reasonably certain will be exercised. In those instances, the right-to-use leased asset is amortized over the asset's estimated useful life.

A summary of changes in capital assets for the year ended June 30, 2022 is presented as follows:

	Balance July 1, 2021 (As Restated)*	Increases	Decreases	Balance June 30, 2022
Capital Assets, Nondepreciable:				
Land	\$ 1,105,552	\$ 0	\$ 0	\$ 1,105,552
Construction in Progress	13,959,999	2,426,922	12,157,465	4,229,456
Computer Software in Development	787,544,393	98,773,263		886,317,656
Total Capital Assets, Nondepreciable	802,609,944	101,200,185	12,157,465	891,652,664
Capital Assets, Depreciable:				
Buildings	779,757,527	12,761,881	314,163	792,205,245
Right-to-Use Leased Buildings	96,326,156	28,382,209		124,708,365
Machinery and Equipment	176,207,776	6,989,432	5,524,988	177,672,220
Right-to-Use Leased Machinery and Equipment	808,200			808,200
General Infrastructure	97,184,365	255,792	92,909	97,347,248
Computer Software	298,927,394	5,226,425		304,153,819
Total Capital Assets, Depreciable	1,449,211,418	53,615,739	5,932,060	1,496,895,097
Less Accumulated Depreciation/Amortization for:				
Buildings	193,290,862	13,873,848	236,231	206,928,479
Right-to-Use Leased Buildings		17,357,909		17,357,909
Machinery and Equipment	79,235,654	8,534,411	4,230,596	83,539,469
Right-to-Use Leased Machinery and Equipment		356,577		356,577
General Infrastructure	34,479,488	1,694,662	92,909	36,081,241
Computer Software	83,505,032	12,270,681		95,775,713
Total Accumulated Depreciation/Amortization	390,511,036	54,088,088	4,559,736	440,039,388
Total Capital Assets, Depreciable, Net	1,058,700,382	(472,349)	1,372,324	1,056,855,709
Capital Assets, Net	\$ 1,861,310,326	\$ 100,727,836	\$ 13,529,789	\$ 1,948,508,373

* The restatement of July 1, 2021 balances was due to the implementation of GASB Statement No. 87, *Leases*. See Note 18 for additional information.

At year-end, the total amount of leased assets was \$125,516,565 and the related accumulated amortization was \$17,714,486.

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, 2022 were as follows:

	Amount
Intergovernmental Payables:	
Due to Federal Agencies:	
Department of Health and Human Services	\$ 253,102,896
Department of Agriculture	5,575,646
Department of Education	1,622,958
Social Security Administration	890,009
Department of Housing and Urban Development	523,535
Other	60,024
Due to Local Governments	176,056,208
Total Intergovernmental Payables	\$ 437,831,276

NOTE 7 - MEDICAL CLAIMS PAYABLE

The Department annually estimates medical claims payable which represent amounts owed to providers for medical services incurred by Medicaid recipients in the current fiscal year but not yet submitted for reimbursement as of June 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 74% as of June 30, 2022, 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, leases payable, 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 2021 *Annual Comprehensive 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 2021 *Annual Comprehensive 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.

D. Changes in Long-Term Liabilities - A summary of changes in long-term liabilities for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (As Restated)*	Additions	Reductions	Balance June 30, 2022	Current Portion
Compensated Absences	\$ 124,426,783	\$ 54,152,405	\$ 64,423,617	\$ 114,155,571	\$ 11,929,262
Net Pension Liability	590,994,508		338,270,318	252,724,190	
Net Other Postemployment Benefits Liability	1,156,982,045	270,490,109		1,427,472,154	
Leases Payable	97,134,356	28,382,209	15,109,432	110,407,133	15,284,483
Workers' Compensation Liability	120,404,026	2,451,927	14,355,430	108,500,523	20,000,000
Total Long-Term Liabilities	\$ 2,089,941,718	\$ 355,476,650	\$ 432,158,797	\$ 2,013,259,571	\$ 47,213,745

Additional information regarding the leases payable is included in Note 9.

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 the workers' compensation liability is included in Note 16.

* The restatement of July 1, 2021 balances was due to the implementation of GASB Statement No. 87, *Leases*. See Note 18 for additional information.

NOTE 9 - LEASES

As discussed in Note 8, general long-term liabilities are not recognized in governmental funds until they become due. Consequently, leases payable not yet due are not reported on the face of the financial statements.

The Department's leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liability June 30, 2022	Current Portion	Lease Terms ⁽¹⁾	Interest Rate
Lessee:					
Right-to-Use Buildings	130	\$ 109,059,554	\$ 14,720,563	1-14 Years	3.25%
Right-to-Use Machinery and Equipment	17	1,347,579	563,920	1-4 Years	3.25%
Total	147	\$ 110,407,133	\$ 15,284,483		

(1) The lease terms were calculated using weighted averages based on lease payable amounts.

Lease Liability - Measurement of the lease liability excluded the following variable payment amounts: 1) the increase or decrease in payments after the initial measurement of the lease liability that depend on changes in an index or rate (such as the Consumer Price Index) and 2) payments based on future performance or usage of the underlying assets. During the year, the Department did not recognize these changes in variable payments not previously included in the measurement of the lease liability payments.

Future principal and interest lease payments as of June 30, 2022 were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 15,284,483	\$ 3,323,175	\$ 18,607,658
2024	12,819,785	2,885,582	15,705,367
2025	12,362,514	2,485,231	14,847,745
2026	9,254,104	2,134,559	11,388,663
2027	9,530,052	1,830,637	11,360,689
2028-2032	36,140,329	4,970,656	41,110,985
2033-2037	10,749,178	1,338,581	12,087,759
2038-2042	4,266,688	296,645	4,563,333
Total	\$ 110,407,133	\$ 19,265,066	\$ 129,672,199

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 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, 2022 is presented as follows:

	<u>Amount</u>
Gross Patient Service Revenue	\$ 916,605,564
Deduct	
Contractual Adjustments:	
Contractual Allowances	26,424,815
Disproportionate Share Hospital	(184,853,070)
Bad Debt	340,362,280
Third Party Reimbursement Programs:	
Federal Funds - State Medicaid Program	231,939,017
Federal Funds - Managed Care Organizations	281,506,018
Transfers - Non-Federal Share from DHB	181,808,905
Net Patient Service Revenue	<u>\$ 39,417,599</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - FEES, LICENSES, AND FINES REVENUES

Fees, licenses, and fines for the fiscal year ended June 30, 2022 were as follows:

	Health Benefits	Child Development	Health Service Regulation	Public Health	Blind/Deaf Services	Mental Health	Other Divisions	Total
Business License Fees	\$ 0	\$ 1,092,074	\$ 10,134,223	\$ 4,851,833	\$ 0	\$ 643,025	\$ 0	\$ 16,721,155
Non-Business Permit License Fees				1,652,760			355,085	2,007,845
Certification Fees			335,340	456,790				792,130
Inspection and Examination Fees				1,929,260				1,929,260
Fines, Penalties, and Assessment Fees	176,307	500	2,687,439	224,695		48		3,088,989
Registration Fees		156,129	40,730	2,940				199,799
Other Licenses, Fees, and Permits	444,754	1,117,646	4,162,413	13,529,788	2,461,126	1,425		21,717,152
Cost Recoveries	112,113,778							112,113,778
Intermediate Care Facility Assessments	20,828,336							20,828,336
Provider Enrollment Fees	536,114							536,114
Miscellaneous		65,134	8,955				657,730	731,819
Civil Fines and Penalties - Transfers		(500)	(1,435,980)	(181,160)		(38)		(1,617,678)
Total Fees, Licenses, and Fines	\$ 134,099,289	\$ 2,430,983	\$ 15,933,120	\$ 22,466,906	\$ 2,461,126	\$ 644,460	\$ 1,012,815	\$ 179,048,699

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, 2022 are as follows:

Revenues from Other State Agencies

Other State Agencies	Central Administration	Health Benefits	Child Development	Public Health	Blind/ Deaf Development	Social Services	Mental Health	Other Divisions	Total
Office of State Budget and Management	\$ 18,700,847	\$ 125,876,156	\$ 484,425	\$ 3,358,452	\$ 453,207	\$ 20,266,793	\$ 36,238,125	\$ 2,677,721	\$ 208,055,726
Department of Public Safety							15,735,496		15,735,496
Department of Transportation				628,019		742,034		335,911	1,705,964
Administrative Office of the Courts				646,900					646,900
Department of Information Technology	172,967				7,869,361				8,042,328
Department of Public Instruction			144,113				3,200,000		3,344,113
Department of Justice				13,000,000					13,000,000
NC Education Lottery			78,252,110				1,000,000		79,252,110
Total Revenues from Other State Agencies	\$ 18,873,814	\$ 125,876,156	\$ 78,880,648	\$ 17,633,371	\$ 8,322,568	\$ 21,008,827	\$ 56,173,621	\$ 3,013,632	\$ 329,782,637

Expenditures to Other State Agencies

Other State Agencies	Central Administration	Health Service Regulation	Health Benefits	Social Services	Mental Health	Total
Office of State Budget and Management	\$ 5,117,606	\$ 0	\$ 0	\$ 393,915	\$ 0	\$ 5,511,521
Office of the State Controller		6,703,525	167,364,119			174,067,644
Administrative Office of the Courts			70,000			70,000
Department of Public Safety			187,085		300,000	487,085
Department of Insurance	750,000		750,000			1,500,000
Department of Information Technology			7,470,156			7,470,156
Department of Public Instruction			43,588,531			43,588,531
Total Expenditures to Other State Agencies	\$ 5,867,606	\$ 6,703,525	\$ 219,429,891	\$ 393,915	\$ 300,000	\$ 232,694,937

NOTE 13 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2022 consisted of the following:

	Transfers In			
	General Fund	Special Revenue Funds	Capital Projects Funds	Total
Transfers Out				
General Fund	\$ 635,738,955	\$ 14,239,294	\$ 0	\$ 649,978,249
Special Revenue Funds	13,926,124	69,183		13,995,307
Capital Projects Funds			57,549	57,549
Total	\$ 649,665,079	\$ 14,308,477	\$ 57,549	\$ 664,031,105

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 the 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 for June 30, 2022 were \$649,665,079 for the General Fund, \$14,308,477 for Special Revenue Funds, and \$57,549 for Capital Projects Funds. 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**Cost-Sharing, Multiple-Employer, 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 governmental funds' 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 membership

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 membership 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.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. LEO's who complete 25 years of credible service with 15 years as an officer are eligible to retire with partial retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO 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 (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members 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 and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The Department's contractually-required contribution rate for the year ended June 30, 2022 was 16.38% of covered payroll. Plan members' contributions to the pension plan were \$51,552,870, and the Department's contributions were \$140,739,335 for the year ended June 30, 2022.

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 2021 *Annual Comprehensive 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 are 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 participate in the Long-Term Investment, the 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 2021 *Annual Comprehensive Financial Report*.

Net Pension Liability: At June 30, 2022, the Department's proportionate share of the collective net pension liability was \$252,724,190. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The Department's proportion of the net pension liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 5.40%, which was an increase of 0.51 from its proportion measured as of June 30, 2020, which was 4.89%.

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	12/31/2020
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

* Salary increases include 3.25% 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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, 2021 (the measurement 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 as part of a study conducted in 2016, 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, 2021 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 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, 2021 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage point higher (7.5%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
\$ 847,733,252	\$ 252,724,190	\$ (241,876,579)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2022, the Department's proportionate share of the collective pension expense was \$91,812,274. At June 30, 2022, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to TSERS were from the following sources:

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

	Department as a Whole	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 14,205,950	\$ 5,739,643
Changes of Assumptions	94,799,562	
Net Difference Between Projected and Actual Earnings on Plan Investments		313,128,422
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	53,806,599	
Contributions Subsequent to the Measurement Date	140,739,335	
Total	\$ 303,551,446	\$ 318,868,065

The amount reported as deferred outflows of resources related to the contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. Other amounts of deferred outflows of resources and deferred inflows of resources related to TSERS 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:

<u>Year Ending June 30:</u>	<u>Amount</u>
2023	\$ (10,456,974)
2024	(19,106,945)
2025	(30,456,808)
2026	(96,035,227)
Total	\$ (156,055,954)

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 2021 *Annual Comprehensive 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 other postemployment benefits (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 2021 *Annual Comprehensive 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 by Chapter 135-7, Article 1 of the General Statutes 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 contributions 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. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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. 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 five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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, 2022 was 6.29% of covered payroll. The Department's contributions to the RHBF were \$54,044,593 for the year ended June 30, 2022.

In fiscal year 2021, the State Health Plan (the Plan) transferred \$187.0 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was considered to be a nonemployer contributing entity contribution and was allocated among RHBF employers. For the fiscal year ended June 30, 2022, the contribution allocated to the Department was \$8,634,388.

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 and 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, 2022 was 0.09% of covered payroll. The Department's contributions to DIPNC were \$773,293 for the year ended June 30, 2022.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2022, the Department's proportionate share of the collective net OPEB liability for RHBF was \$1,427,472,154. The net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Department's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 4.61%, which was an increase of 0.44 from its proportion measured as of June 30, 2020, which was 4.17%.

Net OPEB Asset: At June 30, 2022, the Department reported an asset of \$767,326 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by actuarial valuations as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Department's proportion of the net OPEB asset was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially determined. As of June 30, 2021, the Department's proportion was 4.70%, which was an increase of 0.49 from its proportion measured as of June 30, 2020, which was 4.21%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* Salary increases include 3.25% inflation and productivity factor.

** Investment rate of return is net of OPEB 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 or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan 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 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the measurement 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 as part of a study conducted in 2016, 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, 2021 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. 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 have been 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, 2020 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, 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 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from employers would 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 to current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% and rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would 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 to 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 (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
RHBF	\$ 1,697,957,050	\$ 1,427,472,154	\$ 1,208,408,299
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC	\$ (484,476)	\$ (767,326)	\$ (1,028,989)

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:

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF Net OPEB Liability	\$ 1,156,011,489	\$ 1,427,472,154	\$ 1,787,589,066
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC Net OPEB Asset	\$ (807,632)	\$ (767,326)	\$ (717,107)

OPEB Expense: For the fiscal year ended June 30, 2022, the Department recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	\$ (2,315,285)
DIPNC	1,708,562
Total OPEB Expense	\$ (606,723)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2022, the Department's proportionate share of 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	\$ 8,427,589	\$ 1,956,459	\$ 10,384,048
Changes of Assumptions	116,754,932	134,731	116,889,663
Net Difference Between Projected and Actual Earnings on Plan Investments		74,882	74,882
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	175,219,730	219,017	175,438,747
Contributions Subsequent to the Measurement Date	54,044,593	773,293	54,817,886
Total	\$ 354,446,844	\$ 3,158,382	\$ 357,605,226

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 26,571,902	\$ 0	\$ 26,571,902
Changes of Assumptions	346,906,757	278,575	347,185,332
Change in proportion and differences between agency's contribution and proportionate share of contributions		272,763	272,763
Net Difference Between Project and Actual Earnings on Plan Investments	<u>730,210</u>		<u>730,210</u>
Total	<u><u>\$ 374,208,869</u></u>	<u><u>\$ 551,338</u></u>	<u><u>\$ 374,760,207</u></u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will represent a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2023. Other amounts of deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2023	\$ (118,363,183)	\$ 523,375
2024	(26,278,067)	363,558
2025	19,903,207	465,310
2026	4,740,282	216,241
2027	46,191,143	81,041
Thereafter		<u>184,226</u>
Total	<u><u>\$ (73,806,618)</u></u>	<u><u>\$ 1,833,751</u></u>

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 and employee contributions. 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 who enroll in the TSERS. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% 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 for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. 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.

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 private insurance companies. 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 *Annual Comprehensive 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, 2022, the Department is unable to estimate what liabilities may result from such audits.

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. The OIG contends that the claims were not in accordance with federal requirements, specifically stating that the Division of Health Benefits (DHB) used statistically invalid random moment time sampling (RMTS) in allocating costs to Medicaid and that DHB did not maintain adequate support to validate its sample results and related extrapolations. In addition, the OIG contends that DHB claimed these costs without proper approval of its Cost Allocation Plan (CAP) by the

U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). The DHB's CAP was approved by the Centers for Medicare and Medicaid Services (CMS) prior to its implementation and retroactively approved by the DCA to a date prior to its implementation. Despite approval by CMS and the DCA, the OIG contends that the \$107.5 million (approximately \$53.8 million federal financial participation) the Department claimed in school-based Medicaid administrative costs for federal fiscal years 2010 through 2012 was unallowable. The OIG recommends that the Department: (1) refund approximately \$53.8 million to the federal government; (2) revise its implementation plan and amend its CAP to address the statistical validity issues OIG identified and incorporate CMS's sampling documentation requirements; (3) implement policies and procedures to ensure that DHB's RMTS complies with Federal requirements for statistical validity; (4) maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid; (5) promptly submit to DCA for review and approval DHB's future CAP amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid; and (6) review school-based Medicaid administrative costs claimed after the audit period and refund unallowable amounts. The Department strongly disagrees with these findings and conclusions based upon approval of its CAP by both CMS and DCA, as well as flaws in the OIG's analysis of the statistical validity of the RMTS. The CMS has indicated they will seek recovery of the \$53.8 million but a demand letter has not yet been received. The Department will vigorously defend the action or, alternatively, seek a settlement with CMS.

The OIG contends that for the fiscal years 2011-2013, the Division of Health Benefits (DHB) 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 DHB had numerous conversations with CMS regarding the calculation of these bonus payments prior to submitting its enrollment numbers to CMS, and the DHB believes the calculation was made consistent with CMS guidance and consistent with the federal law that created the bonus payments. There are a number of other states with similar OIG findings that have expressed disagreement with the OIG's analysis. The CMS issued a disallowance letter in the amount of \$34.8 million based upon OIG's analysis. The Department appealed the disallowance. Other states also appealed, and the matters were consolidated for a decision by the Departmental Appeals Board. The Department was represented by the North Carolina Attorney General's Office in this matter, and also retained outside representation. The Departmental Appeals Board issued its decision finding that CMS had erred in its interpretation of the statute, but also remanded the case to CMS to determine if there were overpayments made. The Department subsequently resubmitted baseline numbers to the CMS for review. A subsequent request for clarification was answered and the DHB is awaiting further communication 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.

In May 2017, six individual plaintiffs and the plaintiff organization Disability Rights North Carolina (DRNC) filed a suit in Wake County Superior Court (the Court). They assert that the State of NC and the Department have violated the North Carolina Persons with Disabilities Act (the Act) and the State Constitution. The plaintiffs seek an injunction requiring the defendants to administer publicly funded behavioral health programs in compliance with the Act and the NC Constitution. As the plaintiffs do not seek monetary damages, it is hard to put a dollar amount on the litigation. However, if the Court does enter

some sort of injunction, the Department anticipates that substantial funds would be needed for implementation of any service or systems modification. The Attorney General's staff attorneys are representing the Department and the State. The Department's motion to dismiss was denied. After the completion of discovery, all parties filed motions for summary judgement. The trial court denied the State's motion for summary judgement and granted Plaintiff's partial motion for summary judgement by order dated February 4, 2020. The court ruled that the State was in violation of North Carolina General Statute 169A-7(b) of the North Carolina Persons with Disabilities Protection Act. The Department is awaiting further orders with additional specifics. The parties provide the Court with regular updates regarding the case. Most recently, DRNC filed a request with the court for specific relief, including the appointment of a Special Master. The Department is opposed this request. The Court directed the parties to submit a proposed order adopting specific and measurable goals along the lines of the proposal submitted by DRNC, as the Court will also consider the State's proposal. The State's proposal was filed in August 2022. An order was issued on October 31, 2022 adopting the proposal submitted by DRNC. This order will require significant resources and system changes. In December 2022, the Department filed for an appeal to the NC Court of Appeals of the Court's order. In February 2023, the Judge who issued the order granted the Department's motion to stay implementation of the terms of the order during the pendency of the order during the appeal process.

Two State Constitutional claims are asserted against the Department: 1) Violation of Substantive Due Process (Art. I, Sec. 19); and 2) Violation of Equal Protection (Art. I, Sec. 19). The plaintiffs also sued two Department employees in their individual capacities. Damages requested are in excess of \$100,000,000. The Department disputes the claims and damages. Motions to Dismiss and Answers were filed on behalf of the Department and two employees. The hearing on the Motions to Dismiss occurred on November 18, 2020. Per the judge's request, the Defendants submitted supplemental briefing on December 16, 2020, and the Plaintiffs submitted supplemental briefing on January 4, 2021. The Department served Plaintiffs with its discovery responses on January 6, 2021. The case management order issued on October 7, 2020 set discovery deadlines throughout 2021 and a trial date for fall 2021. The trial court granted in part the Department's motions to dismiss, but many claims remain. The Department and two employees are represented by the Attorney General's Office. The parties filed a joint motion to extend discovery 90 days until November 1, 2021. On August 31, 2021, the Business Court transferred the matter from Judge Adam Conrad to Judge Michael Robinson without explanation. A Motion for Summary Judgment was filed on December 1, 2021 on behalf of the Department and employees. The Plaintiff's Memorandum in Opposition to Motion for Summary Judgment was filed on January 10, 2022. The court granted a motion for extension of time to file the Reply Brief and to increase the word limit for the Defendant. The Defendant filed the Reply Brief on January 27, 2022. Hearing on Motion for Summary Judgment was heard on April 12, 2022. The court granted the Department's Motion on Summary Judgment on September 26, 2022 with respect to the Department and employees. The Plaintiff has filed an appeal, but only as to the constitutional claims against the Department. The Plaintiff did not appeal the causes of action against the two Department employees.

- C. Commitments** – As of June 30, 2022, the Department had commitments of \$9,025,867 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. In March 2021, the parties agreed that the State had substantially complied with certain requirements of the agreement and the related obligations were discharged as of July 1, 2021. The parties also agreed to further extend the deadline for compliance with the remaining requirements of the agreement to July 1, 2023.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No.87, Leases

GASB Statement No. 99, Omnibus 2022

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

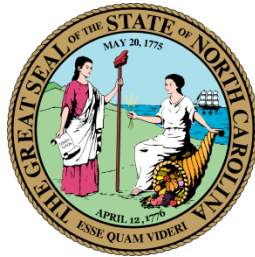
Because the Department reports only governmental funds, right-to-use leased assets and related lease liabilities are not reported on the face of the financial statements. See Note 5 and Note 8 for details related to lease assets and liabilities, respectively.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

NOTE 19 - FUND BALANCE RESTATEMENT

As of July 1, 2021, fund balances as previously reported were restated as follows as a result of fiscal year 2021 COVID-19 related invoices being received late in fiscal year 2022.

	<u>Department</u>	<u>Central Administration</u>
July 1, 2021 Fund Balances as Previously Reported Restatement	\$ (57,916,927)	\$ 6,819,682
To Correct Prior Period Accounts Payable Accrual for Central Administration	<u>(49,738,189)</u>	<u>(49,738,189)</u>
July 1, 2021 Fund Balances as Restated	<u><u>\$ (107,655,116)</u></u>	<u><u>\$ (42,918,507)</u></u>



REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Department of Health and Human Services
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) General Fund
Department
For the Fiscal Year Ended June 30, 2022

Exhibit M-1

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants	\$ 18,464,533,863	\$ 21,210,164,108	\$ 19,562,181,122	\$ (1,647,982,986)
Local Grants	1,204,447,218	1,716,644,764	1,632,490,472	(77,281,197)
Local Match and Program Income	11,369,662	19,697,024	17,409,822	(2,287,202)
Sales, Services, and Rentals	92,130,206	93,283,403	43,325,394	(49,958,009)
Rental and Lease of Property	131,982	132,882	171,475	38,593
Fees, Licenses, and Fines	911,917,764	913,189,758	807,554,917	(105,634,841)
Contributions and Donations	95,375	100,375	252,179	151,804
Miscellaneous Revenues	144,552,458	157,642,783	149,836,441	(7,806,342)
Total Revenues	20,829,178,528	24,110,855,097	22,213,221,822	(1,897,633,275)
EXPENDITURES				
Salaries and Benefits	1,403,232,946	1,322,254,907	1,217,083,178	105,171,729
Purchased Services	851,785,940	1,850,212,077	1,529,485,633	320,726,444
Supplies	98,475,290	144,310,029	109,310,196	34,999,833
Property, Plant, and Equipment	61,574,611	55,085,103	24,819,707	30,265,396
Other Expenditures and Adjustments	26,295,773	46,412,678	41,189,442	5,223,236
Aid and Public Assistance	13,570,607,602	26,033,725,456	24,983,485,451	1,050,240,005
Reserves	865,947,938	953,836,160		953,836,160
Total Expenditures	16,877,920,100	30,405,836,410	27,905,373,607	2,500,462,803
Excess of Revenues Over (Under) Expenditures	3,951,258,428	(6,294,981,313)	(5,692,151,785)	602,829,528
OTHER FINANCING SOURCES (USES)				
State Appropriations	5,820,695,385	5,820,695,385	5,709,683,356	(111,012,029)
Transfers from Other Departments or Funds	2,488,730,986	4,150,805,524	3,547,752,031	(603,053,493)
Transfers to Other Departments or Funds	(1,921,928,972)	(3,296,995,143)	(2,954,185,974)	342,809,169
Total Other Financing Sources	6,387,497,399	6,674,505,766	6,303,249,413	(371,256,353)
Net Change in Fund Balance	10,338,755,827	379,524,453	611,097,628	231,573,175
Fund Balance - Beginning of Year	128,636,930	128,636,930	128,636,930	
Fund Balance - End of Year	\$ 10,467,392,757	\$ 508,161,383	\$ 739,734,558	\$ 231,573,175

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 739,734,558
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	1,440,893,292
Payables	(1,940,016,425)
Deferred Inflows	(21,395,323)
Total Basis Differences	(520,518,456)
Other Adjustments:	
Cash	174,741,109
Inventories	11,919,320
Fund Balance (GAAP Basis) June 30, 2022	\$ 405,876,531

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, 2022

Exhibit M-2

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 231,038,304	\$ 261,437,408	\$ 96,955,781	\$ (164,481,627)
Title IV-D / Child Support	5,909,338	6,132,491	4,942,816	(1,189,675)
Other Federal Grants	77,526,897	643,539,229	643,755,949	216,720
Local Grants	688,213	215,980,098	217,998,404	2,018,306
Sales, Services, and Rentals	18,325	18,325	21,843	3,518
Miscellaneous Revenues	3,077,590	3,002,499		(3,002,499)
Total Revenues	318,258,667	1,130,110,050	963,674,793	(166,435,257)
EXPENDITURES				
Salaries and Benefits	115,767,531	115,041,472	102,062,259	12,979,213
Purchased Services	331,881,603	1,117,363,489	912,726,358	204,637,131
Supplies	1,159,453	14,294,003	13,694,857	599,146
Property, Plant, and Equipment	40,891,053	21,542,976	3,376,566	18,166,410
Other Expenditures and Adjustments	2,525,647	9,278,317	6,107,942	3,170,375
Aid and Public Assistance	77,098,215	129,848,593	103,662,431	26,186,162
Reserves	1,325,108	20,566,690		20,566,690
Total Expenditures	570,648,610	1,427,935,540	1,141,630,413	286,305,127
Excess of Revenues Over (Under) Expenditures	(252,389,943)	(297,825,490)	(177,955,620)	119,869,870
OTHER FINANCING SOURCES (USES)				
State Appropriations	195,260,392	197,085,292	195,277,271	(1,808,021)
Transfers from Other Departments or Funds	112,297,537	322,041,446	241,340,543	(80,700,903)
Transfers to Other Departments or Funds	(79,028,717)	(233,177,802)	(191,536,020)	41,641,782
Total Other Financing Sources	228,529,212	285,948,936	245,081,794	(40,867,142)
Net Change in Fund Balance	(23,860,731)	(11,876,554)	67,126,174	79,002,728
Fund Balance - Beginning of Year	44,850,909	44,850,909	44,850,909	
Fund Balance - End of Year	\$ 20,990,178	\$ 32,974,355	\$ 111,977,083	\$ 79,002,728

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 111,977,083
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	51,529,974
Payables	(264,596,997)
Total Basis Differences	(213,067,023)
Other Adjustments:	
Cash	174,733,857
Inventories	251,364
Fund Balance (GAAP Basis) June 30, 2022	<u>\$ 73,895,281</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, 2022

Exhibit M-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Program	\$ 13,142,770,532	\$ 13,851,613,888	\$ 13,885,611,701	\$ 33,997,813
Medical Assistance Administration and Training	220,451,784	304,216,235	265,079,197	(39,137,038)
CHIP	586,214,156	584,132,193	643,812,034	59,679,841
Other Federal Grants	38,100,088	25,140,613	6,191,711	(18,948,902)
Local Grants	392,534,628	577,994,077	571,120,982	(6,873,095)
Sales, Services, and Rentals	28,884	28,884	2,625	(26,259)
Fees, Licenses, and Fines	862,331,986	862,331,986	765,561,552	(96,770,434)
Miscellaneous Revenues	18,861,766	19,595,527	31,322,120	11,726,593
Total Revenues	15,261,293,824	16,225,053,403	16,168,701,922	(56,351,481)
EXPENDITURES				
Salaries and Benefits	51,240,424	44,721,793	43,405,698	1,316,095
Purchased Services	289,117,365	343,990,983	331,436,286	12,554,697
Supplies	191,297	75,033	64,802	10,231
Property, Plant, and Equipment	275,155	463,688	433,099	30,589
Other Expenditures and Adjustments	1,122,411	1,677,848	1,666,346	11,502
Aid and Public Assistance	9,183,265,250	20,071,777,021	19,903,413,556	168,363,465
Reserves	20,402,487	1,694,655		1,694,655
Total Expenditures	9,545,614,389	20,464,401,021	20,280,419,787	183,981,234
Excess of Revenues Over (Under) Expenditures	5,715,679,435	(4,239,347,618)	(4,111,717,865)	127,629,753
OTHER FINANCING SOURCES (USES)				
State Appropriations	4,029,587,261	4,039,587,261	3,990,209,081	(49,378,180)
Transfers from Other Departments or Funds	1,905,293,344	2,958,158,939	2,898,160,703	(59,998,236)
Transfers to Other Departments or Funds	(1,284,587,856)	(2,362,790,898)	(2,292,263,726)	70,527,172
Total Other Financing Sources	4,650,292,749	4,634,955,302	4,596,106,058	(38,849,244)
Net Change in Fund Balance	10,365,972,184	395,607,684	484,388,193	88,780,509
Fund Balance - Beginning of Year	30,917,353	30,917,353	30,917,353	
Fund Balance - End of Year	\$ 10,396,889,537	\$ 426,525,037	\$ 515,305,546	\$ 88,780,509

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 differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 515,305,546
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	960,540,931
Payables	(1,227,650,807)
Total Basis Differences	(267,109,876)
Other Adjustments:	
Inventories	55,220
Fund Balance (GAAP Basis) June 30, 2022	\$ 248,250,890

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, 2022

Exhibit M-4

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child Care Development Funds	\$ 257,296,470	\$ 517,663,745	\$ 361,661,998	\$ (156,001,747)
TANF	184,277,203	190,538,543	190,469,913	(68,630)
Other Federal Grants	559,604,211	1,138,094,487	607,070,916	(531,023,571)
Fees, Licenses, and Fines	2,461,290	2,974,740	2,366,348	(608,392)
Miscellaneous Revenues	514,138	196,208	191,616	(4,592)
Total Revenues	1,004,153,312	1,849,467,723	1,161,760,791	(687,706,932)
EXPENDITURES				
Salaries and Benefits	26,481,000	28,769,659	24,023,804	4,745,855
Purchased Services	10,644,301	19,969,328	12,957,213	7,012,115
Supplies	101,960	2,146,595	1,380,590	766,005
Property, Plant, and Equipment	38,855	123,906	88,599	35,307
Other Expenditures and Adjustments	553,598	193,907	187,159	6,748
Aid and Public Assistance	756,336,443	1,606,865,789	1,425,898,876	180,966,913
Reserves	528,073,060	523,863,459		523,863,459
Total Expenditures	1,322,229,217	2,181,932,643	1,464,536,241	717,396,402
Excess of Revenues Over (Under) Expenditures	(318,075,905)	(332,464,920)	(302,775,450)	29,689,470
OTHER FINANCING SOURCES (USES)				
State Appropriations	242,665,839	242,744,394	229,746,523	(12,997,871)
Transfers from Other Departments or Funds	98,736,563	121,678,767	81,678,722	(40,000,045)
Transfers to Other Departments or Funds	(23,326,497)	(31,958,241)	(8,649,795)	23,308,446
Total Other Financing Sources	318,075,905	332,464,920	302,775,450	(29,689,470)
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year	0	0	0	
Fund Balance - End of Year	\$ 0	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 0
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	193,473,355
Payables	(188,056,886)
Deferred Inflows	(16,025)
Total Basis Differences	<u>5,400,444</u>
Other Adjustments:	
Inventories	<u>11,958</u>
Fund Balance (GAAP Basis) June 30, 2022	<u>\$ 5,412,402</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, 2022

Exhibit M-5

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medicare	\$ 9,756,720	\$ 10,584,386	\$ 9,452,049	\$ (1,132,337)
Health Standard Quality Bureau	6,995,000	6,929,717	5,175,350	(1,754,367)
Medical Assistance Administration and Training	7,448,265	7,460,483	6,049,679	(1,410,804)
HRSA - Bioterrorism Hospital	6,636,023	6,833,456	7,877,753	1,044,297
Other Federal Grants	4,386,044	6,858,034	3,947,122	(2,910,912)
Local Grants	1,577,878	2,106,010	1,814,623	(291,387)
Sales, Services, and Rentals	483,477	483,998	485,348	1,350
Fees, Licenses, and Fines	19,366,961	19,783,031	16,927,590	(2,855,441)
Miscellaneous Revenues	1,567,433	4,545,496	3,349,845	(1,195,651)
Total Revenues	58,217,801	65,584,611	55,079,359	(10,505,252)
EXPENDITURES				
Salaries and Benefits	56,710,713	53,309,800	49,382,966	3,926,834
Purchased Services	6,185,358	9,126,936	7,688,917	1,438,019
Supplies	284,586	308,763	186,310	122,453
Property, Plant, and Equipment	734,660	1,681,745	900,678	781,067
Other Expenditures and Adjustments	1,568,596	2,818,463	1,658,063	1,160,400
Aid and Public Assistance	12,335,440	14,574,489	13,400,447	1,174,042
Reserves	1,491,129	670,402		670,402
Total Expenditures	79,310,482	82,490,598	73,217,381	9,273,217
Excess of Revenues Over (Under) Expenditures	(21,092,681)	(16,905,987)	(18,138,022)	(1,232,035)
OTHER FINANCING SOURCES (USES)				
State Appropriations	24,967,133	24,967,133	24,643,031	(324,102)
Transfers from Other Departments or Funds	6,003,344	11,372,741	11,811,037	438,296
Transfers to Other Departments or Funds	(13,562,136)	(23,281,913)	(20,879,051)	2,402,862
Total Other Financing Sources	17,408,341	13,057,961	15,575,017	2,517,056
Net Change in Fund Balance	(3,684,340)	(3,848,026)	(2,563,005)	1,285,021
Fund Balance - Beginning of Year	41,027,668	41,027,668	41,027,668	
Fund Balance - End of Year	\$ 37,343,328	\$ 37,179,642	\$ 38,464,663	\$ 1,285,021

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 38,464,663
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	4,453,847
Payables	(4,412,970)
Deferred Inflows	(907,084)
Total Basis Differences	(866,207)
Other Adjustments:	
Inventories	17,696
Fund Balance (GAAP Basis) June 30, 2022	\$ 37,616,152

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, 2022

Exhibit M-6

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Child/Adult Day Care	\$ 127,536,726	\$ 135,869,376	\$ 93,869,389	\$ (41,999,987)
HIV Care Grant	62,620,916	64,744,612	51,640,551	(13,104,061)
WIC	229,368,486	236,004,042	166,984,916	(69,019,126)
Medicaid	55,708,054	57,684,852	43,568,319	(14,116,533)
Other Federal Grants	432,156,342	646,199,205	271,475,655	(374,723,550)
Local Grants	25,374,932	25,744,086	3,328,482	(22,415,604)
Sales, Services, and Rentals	2,433,656	2,449,976	1,337,277	(1,112,699)
Fees, Licenses, and Fines	26,719,432	27,038,381	21,693,782	(5,344,599)
Contributions and Donations			198,554	198,554
Miscellaneous Revenues	96,222,994	105,530,923	89,277,103	(16,253,820)
Total Revenues	1,058,141,538	1,301,265,453	743,374,028	(557,891,425)
EXPENDITURES				
Salaries and Benefits	173,864,642	170,753,724	146,651,348	24,102,376
Purchased Services	80,273,742	165,030,180	96,922,097	68,108,083
Supplies	42,368,649	67,215,892	42,575,581	24,640,311
Property, Plant, and Equipment	12,946,235	17,857,944	8,676,298	9,181,646
Other Expenditures and Adjustments	7,306,994	7,627,609	7,172,510	455,099
Aid and Public Assistance	668,316,719	898,150,311	601,231,909	296,918,402
Reserves	245,611,947	322,142,402		322,142,402
Total Expenditures	1,230,688,928	1,648,778,062	903,229,743	745,548,319
Excess of Revenues Over (Under) Expenditures	(172,547,390)	(347,512,609)	(159,855,715)	187,656,894
OTHER FINANCING SOURCES (USES)				
State Appropriations	168,423,871	167,965,278	166,053,969	(1,911,309)
Transfers from Other Departments or Funds	194,617,618	389,041,168	114,181,417	(274,859,751)
Transfers to Other Departments or Funds	(190,494,099)	(209,493,837)	(65,931,642)	143,562,195
Total Other Financing Sources	172,547,390	347,512,609	214,303,744	(133,208,865)
Net Change in Fund Balance	0	0	54,448,029	54,448,029
Fund Balance - Beginning of Year	8,303,060	8,303,060	8,303,060	
Fund Balance - End of Year	\$ 8,303,060	\$ 8,303,060	\$ 62,751,089	\$ 54,448,029

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 62,751,089
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	46,933,154
Payables	(88,671,908)
Deferred Inflows	(3,619,578)
Total Basis Differences	(45,358,332)
Other Adjustments:	
Inventories	3,668,010
Fund Balance (GAAP Basis) June 30, 2022	\$ 21,060,767

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, 2022

Exhibit M-7

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Title III Grants	\$ 34,318,120	\$ 34,564,084	\$ 34,578,525	\$ 14,441
Nutrition Services Incentive Program	3,329,509	3,617,781	3,440,961	(176,820)
Family Caregiver Support	5,400,643	5,425,556	5,342,889	(82,667)
Other Federal Grants	57,883,516	104,884,982	61,849,415	(43,035,567)
Local Match and Program Income	11,369,662	19,697,024	17,409,822	(2,287,202)
Sales, Services, and Rentals	65	65	65	
Fees, Licenses, and Fines	25,000	25,000		(25,000)
Contributions and Donations	85,000	90,000	10,000	(80,000)
Miscellaneous Revenues	150,752	38,569	71,137	32,568
Total Revenues	112,562,267	168,343,061	122,702,814	(45,640,247)
EXPENDITURES				
Salaries and Benefits	7,283,573	7,255,146	6,475,031	780,115
Purchased Services	2,142,121	2,875,840	1,345,521	1,530,319
Supplies	54,689	53,151	21,803	31,348
Property, Plant, and Equipment	79,674	1,358,495	215,143	1,143,352
Other Expenditures and Adjustments	161,347	95,599	91,901	3,698
Aid and Public Assistance	155,239,541	209,436,953	164,844,234	44,592,719
Reserves	17,545	18,585,000		18,585,000
Total Expenditures	164,978,490	239,660,184	172,993,633	66,666,551
Excess of Revenues Over (Under) Expenditures	(52,416,223)	(71,317,123)	(50,290,819)	21,026,304
OTHER FINANCING SOURCES (USES)				
State Appropriations	50,470,626	50,477,313	48,040,205	(2,437,108)
Transfers from Other Departments or Funds	20,947,462	40,798,888	3,728,880	(37,070,008)
Transfers to Other Departments or Funds	(19,001,865)	(19,959,078)	(1,420,766)	18,538,312
Total Other Financing Sources	52,416,223	71,317,123	50,348,319	(20,968,804)
Net Change in Fund Balance	0	0	57,500	57,500
Fund Balance - Beginning of Year	0	0	0	
Fund Balance - End of Year	\$ 0	\$ 0	\$ 57,500	\$ 57,500

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 57,500
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	7,939,452
Payables	(16,392,595)
Total Basis Differences	(8,453,143)
Other Adjustments:	
Inventories	3,070
Fund Balance (GAAP Basis) June 30, 2022	\$ (8,392,573)

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, 2022**

Exhibit M-8

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehab Services	\$ 12,189,493	\$ 14,936,588	\$ 11,418,625	\$ (3,517,963)
Other Federal Grants	5,608,650	5,606,731	4,662,545	(944,186)
Local Grants	1,087,524	1,087,095	843,401	(243,694)
Sales, Services, and Rentals	108,183	108,183	466	(107,717)
Miscellaneous Revenues	704,825	325,043	462,407	137,364
Total Revenues	19,698,675	22,063,640	17,387,444	(4,676,196)
EXPENDITURES				
Salaries and Benefits	26,463,306	26,693,558	21,618,694	5,074,864
Purchased Services	7,062,927	7,734,136	6,339,232	1,394,904
Supplies	409,116	230,850	167,285	63,565
Property, Plant, and Equipment	379,698	232,572	157,009	75,563
Other Expenditures and Adjustments	734,867	325,142	253,313	71,829
Aid and Public Assistance	9,331,291	12,237,457	10,405,514	1,831,943
Reserves	447,691	94,004		94,004
Total Expenditures	44,828,896	47,547,719	38,941,047	8,606,672
Excess of Revenues Over (Under) Expenditures	(25,130,221)	(25,484,079)	(21,553,603)	3,930,476
OTHER FINANCING SOURCES (USES)				
State Appropriations	8,924,708	8,920,441	7,665,013	(1,255,428)
Transfers from Other Departments or Funds	16,205,513	16,720,716	14,045,668	(2,675,048)
Transfers to Other Departments or Funds		(157,078)	(157,078)	
Total Other Financing Sources	25,130,221	25,484,079	21,553,603	(3,930,476)
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year	0	0	0	
Fund Balance - End of Year	\$ 0	\$ 0	\$ 0	\$ 0

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 0
Reconciling Adjustments:	
Basis Differences:	
Receivables	681,642
Payables	(870,509)
Deferred Inflows	(4,881)
Total Basis Differences	(193,748)
Other Adjustments:	
Inventories	15,326
Fund Balance (GAAP Basis) June 30, 2022	\$ (178,422)

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, 2022

Exhibit M-9

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Rehabilitation Services	\$ 102,544,086	\$ 102,871,521	\$ 84,286,512	\$ (18,585,009)
Other Federal Grants	3,918,713	4,262,248	3,673,516	(588,732)
Local Grants	3,174,004	3,174,004	2,360,685	(813,319)
Sales, Services, and Rentals	459,591	459,591	307,184	(152,407)
Miscellaneous Revenues	7,285,465	6,943,310	8,498,333	1,555,023
Total Revenues	117,381,859	117,710,674	99,126,230	(18,584,444)
EXPENDITURES				
Salaries and Benefits	72,314,732	69,782,106	58,317,032	11,465,074
Purchased Services	10,404,190	12,290,174	10,907,379	1,382,795
Supplies	896,860	630,257	561,354	68,903
Property, Plant, and Equipment	726,443	1,937,738	1,318,750	618,988
Other Expenditures and Adjustments	1,853,403	1,587,668	1,500,712	86,956
Aid and Public Assistance	72,611,230	72,661,230	60,698,095	11,963,135
Reserves	1,402,535	219		219
Total Expenditures	160,209,393	158,889,392	133,303,322	25,586,070
Excess of Revenues Over (Under) Expenditures	(42,827,534)	(41,178,718)	(34,177,092)	7,001,626
OTHER FINANCING SOURCES (USES)				
State Appropriations	41,648,700	41,637,929	34,728,813	(6,909,116)
Transfers from Other Departments or Funds	1,784,362	2,225,349	2,095,820	(129,529)
Transfers to Other Departments or Funds	(605,528)	(2,684,560)	(2,647,541)	37,019
Total Other Financing Sources	42,827,534	41,178,718	34,177,092	(7,001,626)
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year	7,680	7,680	7,680	
Fund Balance - End of Year	\$ 7,680	\$ 7,680	\$ 7,680	\$ 0

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 7,680
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	4,040,170
Payables	(5,541,873)
Total Basis Differences	(1,501,703)
Other Adjustments:	
Inventories	132,174
Fund Balance (GAAP Basis) June 30, 2022	\$ (1,361,849)

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, 2022

Exhibit M-10

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 228,843,022	\$ 281,070,367	\$ 280,523,527	\$ (546,840)
Title IV-D / Child Support	103,001,789	116,882,058	113,685,685	(3,196,373)
Title IV-E / Foster Care	154,692,228	160,846,041	170,918,127	10,072,086
Low Income Energy Program	105,771,250	105,771,250	94,215,636	(11,555,614)
Food Stamps	115,559,124	123,804,606	116,922,337	(6,882,269)
TANF	181,163,848	181,163,849	156,658,860	(24,504,989)
Other Federal Grants	213,607,375	286,219,767	203,186,983	(83,032,784)
Local Grants	776,167,362	886,637,501	831,006,532	(55,630,969)
Fees, Licenses, and Fines	332,215	355,595	355,595	
Miscellaneous Revenues	14,401,564	14,856,113	14,264,229	(591,884)
Total Revenues	1,893,539,777	2,157,607,147	1,981,737,511	(175,869,636)
EXPENDITURES				
Salaries and Benefits	32,325,813	31,101,720	26,223,866	4,877,854
Purchased Services	32,040,249	47,164,360	36,716,873	10,447,487
Supplies	597,090	672,585	191,954	480,631
Property, Plant, and Equipment	291,197	375,661	175,063	200,598
Other Expenditures and Adjustments	2,731,672	6,658,031	6,601,406	56,625
Aid and Public Assistance	2,040,243,338	2,323,052,593	2,116,543,990	206,508,603
Reserves	2,316,164	1,747,354		1,747,354
Total Expenditures	2,110,545,523	2,410,772,304	2,186,453,152	224,319,152
Excess of Revenues Over (Under) Expenditures	(217,005,746)	(253,165,157)	(204,715,641)	48,449,516
OTHER FINANCING SOURCES (USES)				
State Appropriations	219,627,081	218,335,144	203,613,217	(14,721,927)
Transfers from Other Departments or Funds	63,613,720	125,970,536	73,408,138	(52,562,398)
Transfers to Other Departments or Funds	(65,906,341)	(91,499,174)	(65,114,992)	26,384,182
Total Other Financing Sources	217,334,460	252,806,506	211,906,363	(40,900,143)
Net Change in Fund Balance	328,714	(358,651)	7,190,722	7,549,373
Fund Balance - Beginning of Year	3,530,260	3,530,260	3,530,260	
Fund Balance - End of Year	\$ 3,858,974	\$ 3,171,609	\$ 10,720,982	\$ 7,549,373

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 10,720,982
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	119,549,024
Payables	(111,109,278)
Deferred Inflows	(673,373)
Total Basis Differences	7,766,373
Other Adjustments:	
Cash	7,252
Inventories	10,069
Fund Balance (GAAP Basis) June 30, 2022	\$ 18,504,676

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, 2022

Exhibit M-11

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Grants:				
Medical Assistance Administration and Training	\$ 5,207,924	\$ 6,001,875	\$ 5,860,880	\$ (140,995)
Reimbursements to Facilities	3,430,467	3,466,053	5,200,600	1,734,547
Medicaid	636,593,504	672,418,143	699,408,439	26,990,296
SAPT Block Grant	84,695,473	84,773,719	52,436,775	(32,336,944)
Other Federal Grants	160,973,570	209,899,894	88,317,486	(121,582,408)
Local Grants	3,842,677	3,921,893	4,017,363	95,470
Sales, Services, and Rentals	88,598,025	89,734,381	41,170,586	(48,563,795)
Rental and Lease of Property	131,982	132,882	171,475	38,593
Fees, Licenses, and Fines	680,880	681,025	650,050	(30,975)
Contributions and Donations	10,375	10,375	43,625	33,250
Miscellaneous Revenues	1,765,931	2,609,095	2,399,651	(209,444)
Total Revenues	985,930,808	1,073,649,335	899,676,930	(173,972,405)
EXPENDITURES				
Salaries and Benefits	840,781,212	774,825,929	738,922,480	35,903,449
Purchased Services	82,034,084	124,666,651	112,445,757	12,220,894
Supplies	52,411,590	58,682,900	50,465,660	8,217,240
Property, Plant, and Equipment	5,211,641	9,510,378	9,478,502	31,876
Other Expenditures and Adjustments	7,737,238	16,150,094	15,950,090	200,004
Aid and Public Assistance	595,830,135	695,121,020	583,386,399	111,734,621
Reserves	64,860,272	64,471,975		64,471,975
Total Expenditures	1,648,866,172	1,743,428,947	1,510,648,888	232,780,059
Excess of Revenues Over (Under) Expenditures	(662,935,364)	(669,779,612)	(610,971,958)	58,807,654
OTHER FINANCING SOURCES (USES)				
State Appropriations	839,119,774	828,975,200	809,706,233	(19,268,967)
Transfers from Other Departments or Funds	69,231,523	162,796,974	107,301,103	(55,495,871)
Transfers to Other Departments or Funds	(245,415,933)	(321,992,562)	(305,585,363)	16,407,199
Total Other Financing Sources	662,935,364	669,779,612	611,421,973	(58,357,639)
Net Change in Fund Balance	0	0	450,015	450,015
Fund Balance - Beginning of Year	0	0	0	
Fund Balance - End of Year	\$ 0	\$ 0	\$ 450,015	\$ 450,015

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2022	\$ 450,015
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Receivables	51,751,743
Payables	(32,712,602)
Deferred Inflows	(16,174,382)
Total Basis Differences	2,864,759
Other Adjustments:	
Inventories	7,754,433
Fund Balance (GAAP Basis) June 30, 2022	\$ 11,069,207

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, 2022

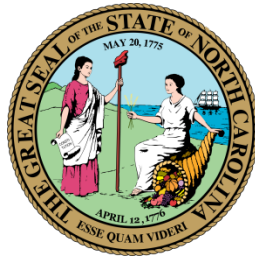
A. Budgetary Process

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.



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, 2022

Exhibit N-1

	Central Administration	Health Benefits (1)	Child Development (2)	Health Service Regulation	Public Health (3)	Aging	Blind/Deaf Services	Vocational Rehabilitation	Social Services (4)	Mental Health (5)	Total Governmental Funds 2022
GRANTS, STATE AID, AND SUBSIDIES											
Medical Assistance:											
Managed Care	\$ 0	\$ 10,653,181,827	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,653,181,827
Supplemental Expenditures		975,408,812									975,408,812
Skilled Nursing Facilities and Personal Care		2,155,222,256									2,155,222,256
Physician Services		760,254,288									760,254,288
Medical Services		1,574,587,309									1,574,587,309
Hospital		920,356,703									920,356,703
Pharmacy Services (Net of Rebates)		(512,359,230)									(512,359,230)
Buy-In / Dual Eligible Expenditures		1,021,857,504									1,021,857,504
Dental		433,897,718									433,897,718
Other Medical Assistance		16,536,971									16,536,971
Total Medical Assistance	0	17,998,944,158	0	0	0	0	0	0	0	0	17,998,944,158
Social Service Programs:											
Food and Nutrition					307,777,584				5,529,006,211		5,836,783,795
Child and Family			1,387,336,652		114,844,204				623,243,586		2,125,424,442
Smart Start Programs			134,588,395								134,588,395
Support of Aging and Adult Programs									103,693,370		103,693,370
Support of Medicaid Programs									272,843,490		272,843,490
Other Social Service Programs									264,443,728		264,443,728
Total Social Service Programs	0	0	1,521,925,047	0	422,621,788	0	0	0	6,793,230,385	0	8,737,777,220
Public Health Programs:											
Communicable Diseases					102,140,681						102,140,681
General Public Health					18,847,128						18,847,128
Chronic Diseases					2,552,951						2,552,951
Other Public Health Programs					59,783,123						59,783,123
Total Public Health Programs	0	0	0	0	183,323,883	0	0	0	0	0	183,323,883
Mental Health Programs	0	0	0	0	0	0	0	0	0	598,769,713	598,769,713
Other Grants, State Aid, and Subsidies	108,474,240	0	0	14,589,707	0	165,831,447	10,819,385	61,165,074	0	0	360,879,853
Total Grants, State Aid, and Subsidies Expenditures	\$ 108,474,240	\$ 17,998,944,158	\$ 1,521,925,047	\$ 14,589,707	\$ 605,945,671	\$ 165,831,447	\$ 10,819,385	\$ 61,165,074	\$ 6,793,230,385	\$ 598,769,713	\$ 27,879,694,827

- (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

**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, 2022**

Exhibit N-2

GRANTS, STATE AID, AND SUBSIDIES

Managed Care ¹	\$ 10,653,181,827
Supplemental Expenditures:	
Gap Payment - Upper Payment Limit	82,445,050
Gap Payment - Equity Payment	
Disproportionate Share Hospital Payment	755,502,084
Enhanced Payment	137,461,678
Total Supplemental Expenditures	975,408,812
Skilled Nursing Facilities and Personal Care:	
Skilled Nursing Facilities	1,594,393,450
Personal Care Services	560,828,806
Total Skilled Nursing Facilities and Personal Care	2,155,222,256
Physician Services:	
Physician Services	448,499,459
Clinics	231,588,356
Community Care of NC (N3CN)	80,166,473
Total Physician Services	760,254,288
Medical Services:	
Client Assistant Program (CAP)	507,193,505
Equipment	188,111,802
Health Check	13,740,702
Transport	231,789,547
Short Term Care	195,403,475
Non-Physician Services	98,502,790
Standalone Lab/X-Ray	67,913,077
Hospice	119,509,146
Case Management	435,612
Medical - General	150,004,351
Family Planning	1,983,302
Total Medical Services	1,574,587,309
Hospital:	
Hospital - Outpatient	292,263,349
Hospital - Inpatient	433,849,972
Emergency Room	194,243,382
Total Hospital	920,356,703
Prescribed Drugs:	
Pharmacy Services	947,876,932
Less Rebates	(1,460,236,162)
Total Prescribed Drugs (Net of Rebates)	(512,359,230)
Buy-In / Dual Eligible Expenditures:	
Medicare Part A	41,401,532
Medicare Part B	668,802,655
Medicare Part D	311,653,317
Total Buy-In / Dual Eligible Expenditures	1,021,857,504
Dental	433,897,718
Other Medical Assistance:	
Health Information Technology Funding	1,289,170
Miscellaneous	15,247,801
Total Other Medical Assistance	16,536,971
Total Grants, State Aid, and Subsidies Expenditures	\$ 17,998,944,158

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

**North Carolina Department of Health and Human Services
Schedule of Grants, State Aid, and Subsidies Expenditures
Division of Child Development and Early Education
For the Fiscal Year Ended June 30, 2022**

Exhibit N-3

GRANTS, STATE AID, AND SUBSIDIES

Child and Family:

Subsidized Child Care Services	\$ 1,198,724,470
Pre-K Services	<u>188,612,182</u>
Total Child and Family	<u>1,387,336,652</u>

Smart Start Programs:

Smart Start Subsidized Child Care Services	19,714,169
Smart Start Child Care Related Activities	<u>114,874,226</u>
Total Smart Start Programs	<u>134,588,395</u>

Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 1,521,925,047</u>
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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, 2022

Exhibit N-4

GRANTS, STATE AID, AND SUBSIDIES

Social Service Programs:

Food and Nutrition:

Women, Infants, and Children (WIC) Program	\$ 217,840,840
Other Nutrition	<u>89,936,744</u>
Total Food and Nutrition	<u>307,777,584</u>

Child and Family:

Maternal and Infant Health	23,210,989
Children Health Services	24,401,303
Child and Adult Prevention	30,126,571
Early Intervention	<u>37,105,341</u>
Total Child and Family	<u>114,844,204</u>

Total Social Service Programs	<u>422,621,788</u>
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Public Health Programs:

Communicable Diseases	102,140,681
General Public Health	18,847,128
Chronic Diseases	2,552,951
Other Public Health Programs	<u>59,783,123</u>

Total Public Health Programs	<u>183,323,883</u>
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Total Grants, State Aid, and Subsidies Expenditures	<u><u>\$ 605,945,671</u></u>
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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, 2022

Exhibit N-5

GRANTS, STATE AID, AND SUBSIDIES

Food and Nutrition:

Food Stamp Program	\$ 5,413,828,656
Nutrition and Food Education Programs	<u>115,177,555</u>
Total Food and Nutrition	<u>5,529,006,211</u>

Child and Family:

Child Services	383,778,287
Foster Care	121,994,613
Adoption	<u>117,470,686</u>
Total Child and Family	<u>623,243,586</u>

Support of Aging and Adult Programs	<u>103,693,370</u>
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Support of Medicaid Programs	<u>272,843,490</u>
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Other Social Service Programs:

Low-Income Energy Assistance Program	178,797,902
Miscellaneous	<u>85,645,826</u>
Total Other Social Service Programs	<u>264,443,728</u>

Total Grants, State Aid, and Subsidies Expenditures	<u><u>\$ 6,793,230,385</u></u>
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**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, 2022**

Exhibit N-6

GRANTS, STATE AID, AND SUBSIDIES

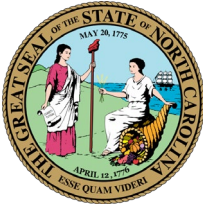
Mental Health Programs:

Local Management Entity Expenditures	\$ 515,678,862
Non-Governmental Expenditures	71,515,365
Governmental Expenditures	<u>11,575,486</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 598,769,713</u>



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

**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**

Kody H. Kinsley, 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, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 27, 2023.

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, 2022, 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) as a basis for designing 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.

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. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 27, 2023

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This audit required 2,200 hours at an approximate cost of \$264,000, including costs associated with the report on the Department's statewide financial statement audit procedures.