

North Carolina Department of Health and Human Services

Raleigh, NC



Financial Statement Audit Report

For the Year Ended June 30, 2025

State Auditor
Dave Boliek

*A Constitutional Office of the
State of North Carolina*





North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Auditor's Transmittal

The Honorable Josh Stein, Governor
The Honorable Phil Berger, President Pro Tempore
The Honorable Destin Hall, Speaker of the House
Honorable Members of the North Carolina General Assembly
Dr. Devdutta Sangvai, Secretary
Department of Health and Human Services

As shown in the North Carolina Office of the State Auditor's (OSA) financial statement audit of the North Carolina Department of Health and Human Services, total revenues for the Department have increased by \$6.3 billion compared to fiscal year 2024. Medicaid is the primary driver of the growth, with federal revenues accounting for \$6 billion of the total increase primarily due to growing Medicaid receipts. Medicaid's total enrollment in North Carolina is now roughly 3.1 million – which represents more than one in four people in our state.

Through financial statement audits of state entities, the OSA assesses whether the financial statements of agencies as prepared are materially correct. The audit of the North Carolina Department of Health and Human Services' financial statements shows no material errors for the year ended June 30, 2025.

This financial statement audit is separate from other engagements the North Carolina Office of the State Auditor has with the Department. I'd like to thank Department leadership and staff for their assistance as the team at OSA conducted this audit.

Respectfully submitted,

Dave Boliek
State Auditor



REPORT SUMMARY

North Carolina Department of Health and Human Services Financial Statement Audit

The Office of the State Auditor (OSA) is required¹ to perform annual financial statement audits at the North Carolina Department of Health and Human Services (Department).

Audit Results

- The Department's financial statements for fiscal year ended June 30, 2025 are **accurate** and **reliable**.
- Our audit found **no material weaknesses in internal controls or instances of reportable noncompliance**.

Audit Purpose & Importance

Provide an opinion on whether the Department's financial statements are materially correct and, if necessary, report any internal control weaknesses or noncompliance with laws and regulations.

The annual financial statement audit serves a vital role in promoting transparency, accountability, and trust in the Department's financial operations.

While a formal process, the audit's impact extends to many members of the public, including:

- Service recipients depend on financial stability to support access to healthcare, public health, and social services programs.
- Healthcare providers and community partners count on the Department's financial health to support planning and continued delivery of services across the state.
- Management relies on accurate financial reporting to monitor financial performance, manage risks, and make informed decisions regarding operations.
- Public officials rely on audited financial statements to assess financial strength to guide funding, oversight, and policy decisions.

A "clean" audit opinion supports public trust and demonstrates the Department's commitment to responsible financial stewardship, assuring stakeholders that resources are being managed to fulfill the institution's mission.

Quick Highlights

 **Revenues:**
\$41.7 Billion

Expenses:
\$40.9 Billion  

Reports

The Department's financial statement audit reports are available on our website at this [link](#).

Please review the report to fully understand the Department's overall financial health and our reporting responsibilities.

¹ North Carolina General Statute 147-64.6(c)(3)

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 reports financial activities in three governmental funds. The governmental funds are used to report all activities of the Department.

It is important to note that while the governmental fund financial statements report all the activity of the Department, the Department is comprised of 11 divisions. The “divisions” presented herein may not represent actual formal divisions within the Department but are representative of the major functions within the Department (see Note 1-A in the “Notes to the Financial Statements” for further explanation).

Where some numbers need further explanation, additional detail is provided in supplementary schedules or “Notes to the Financial Statements” which are 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 opinions on the financial statements, which is whether the financial statements, as presented, are presented fairly in all material respects.

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, 2025, and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2025 for the **governmental funds as a whole**.

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

“B” Exhibit presents the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) for the General Fund. This schedule has not been subjected to the same auditing procedures performed on the financial statements.

Supplementary Information:

“C” Exhibits present the Balance Sheet as of June 30, 2025, and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2025 for the Department by Division.

An Overview of How to Use this Report

“D” through “N” Exhibits present the Balance Sheet as of June 30, 2025, and the Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended June 30, 2025 individually for each division.

“O” 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.



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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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Independent Auditor's Report



North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Independent Auditor's Report

Dr. Devdutta Sangvai, Secretary
Management of the North Carolina Department of Health and Human Services
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the North Carolina Department of Health and Human Services (Department), as of and for the year ended June 30, 2025, 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 major fund and the aggregate remaining fund information of the North Carolina Department of Health and Human Services, as of June 30, 2025, 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 to the financial statements, 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 State of North Carolina as of June 30, 2025, 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 the 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 information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 accompanying supplementary information is 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 June 12, 2026 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.



Dave Boliek
State Auditor

Raleigh, North Carolina

June 12, 2026



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, 2025. 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 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.

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.

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. 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 the General Fund budgetary comparison schedule reconciling the statutory to the generally accepted accounting principles fund balance at fiscal year-end.

Other Supplementary Information

Other supplementary information includes a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for each Division, and 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, 2025 and 2024.

North Carolina Department of Health and Human Services Condensed Balance Sheet Governmental Funds			
	2025	2024	Increase (Decrease)
Assets	\$ 6,299,409,611	\$ 5,053,546,997	\$ 1,245,862,614
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows	<u>\$ 6,299,409,611</u>	<u>\$ 5,053,546,997</u>	<u>\$ 1,245,862,614</u>
Liabilities	\$ 5,440,280,097	\$ 5,042,006,398	\$ 398,273,699
Deferred Inflows of Resources	43,753,284	3,041,702	40,711,582
Fund Balance			
Nonspendable	15,437,810	14,694,707	743,103
Restricted	194,913,068	143,294,014	51,619,054
Committed	940,446,280	774,457,783	165,988,497
Assigned	10,643,872	25,267,797	(14,623,925)
Unassigned	<u>(346,064,800)</u>	<u>(949,215,404)</u>	<u>603,150,604</u>
Total Fund Balance	<u>815,376,230</u>	<u>8,498,897</u>	<u>806,877,333</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 6,299,409,611</u>	<u>\$ 5,053,546,997</u>	<u>\$ 1,245,862,614</u>

Total assets increased \$1.2 billion or 24.65%, compared to fiscal year 2024. There was a \$773.7 million increase in intergovernmental receivables primarily related to an increase in federal shares of medical claims payable at the Division of Health Benefits regarding Medicaid Expansion

and the Healthcare Access and Stabilization Program (HASP). Under HASP, eligible hospitals will receive payments from Prepaid Health Plans (PHPs) for all inpatient and outpatient hospital services. There was a \$369.5 million increase in cash and cash equivalents primarily related to \$163 million in drug rebates and Medicaid Expansion receipts at the Division of Health Benefits, \$74 million at Central Administration for unspent technology and Temporary Savings Fund (TSF) provider incentives and \$25 million of unspent American Rescue Plan Act (ARPA) Temporary Savings Funds. Additionally, there was a \$100.9 million increase in accounts receivable primarily at the Division of Health Benefits due to increase in Medicaid Expansion services, Medicaid program integrity and investigative services, and point-of-sell claims in drug rebates.

Total liabilities increased \$398.3 million or 7.90% compared to fiscal year 2024. This change is primarily due to an increase of \$154.3 million in intergovernmental payables and \$138.7 million in medical claims payable related to reimbursable HASP medical claims, drug rebates and program integrity service at the Division of Health Benefits. Additionally, there was a \$72.9 million increase in accounts payable including \$42.9 million at Division of Health Benefits and \$23.2 million at Division of Mental Health primarily due to Medicaid Expansion. See the Division of Health Benefits portion of the Economic Outlook section for additional information on the HASP.

As of June 30, 2025, the Department reported a fund balance of \$815.4 million, a \$806.9 million increase from the prior year 2024. There were significant fluctuations in the unassigned, restricted and committed fund balances. Unassigned fund balance deficit decreased by \$603.2 million from fiscal year 2024. Restricted fund balance increased \$51.6 million and committed fund balance increased by \$166.0 million resulting in an increase in the overall fund balance. These changes are primarily due to the receipt of federal funds for HASP as described above and for Medicaid Expansion. FY2025 was the first full year of expansion which caused an increase in Medicaid enrollment and expansion of services.

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

	<u>2025</u>	<u>2024</u>	<u>Increase (Decrease)</u>
Revenues			
Federal Funds	\$ 31,996,405,931	\$ 26,000,282,039	\$ 5,996,123,892
Other Revenues	1,511,447,915	1,236,159,465	275,288,450
Total Revenues	<u>33,507,853,846</u>	<u>27,236,441,504</u>	<u>6,271,412,342</u>
Expenditures			
Salaries and Benefits	1,322,603,713	1,287,279,950	35,323,763
Contracted Personal Services	1,070,362,455	992,559,259	77,803,196
Supplies and Materials	63,406,120	90,850,777	(27,444,657)
Travel	10,091,735	7,558,368	2,533,367
Communication	13,933,514	12,778,126	1,155,388
Utilities	20,124,877	18,404,313	1,720,564
Data Processing Services	13,536,958	16,672,353	(3,135,395)
Other Services	44,055,138	36,304,760	7,750,378
Lease/Subscription Expenditures:			
Principal Payments	34,499,544	34,422,810	76,734
Interest and Fees	6,256,155	6,285,689	(29,534)
Other Fixed Charges	64,424,272	50,716,587	13,707,685
Capital Outlay	96,292,178	82,993,248	13,298,930
Grants, State Aid, and Subsidies	37,432,748,530	31,810,822,543	5,621,925,987
Expenditures to Other State Agencies	636,962,141	474,687,292	162,274,849
Other Expenditures	41,127,020	96,107,897	(54,980,877)
Total Expenditures	<u>40,870,424,350</u>	<u>35,018,443,972</u>	<u>5,851,980,378</u>
Excess Expenditures Over Revenues	<u>(7,362,570,504)</u>	<u>(7,782,002,468)</u>	<u>419,431,964</u>
Other Financing Sources (Uses)			
State Appropriations	8,037,198,987	7,276,388,274	760,810,713
Transfers In	4,988,646,744	3,644,343,751	1,344,302,993
Transfers Out	(4,988,646,744)	(3,644,343,751)	(1,344,302,993)
Transfers from State Reserve Fund	350,409,004	331,168,138	19,240,866
Transfers to State Reserve Fund	(243,100,924)	(353,256,907)	110,155,983
Leases/Subscriptions Issued	24,763,744	21,817,565	2,946,179
Other	177,026	228,742	(51,716)
Total Other Financing Sources	<u>8,169,447,837</u>	<u>7,276,345,812</u>	<u>893,102,025</u>
Net Change in Fund Balances	806,877,333	(505,656,656)	1,312,533,989
Fund Balances - Beginning of Year	8,498,897	514,155,553	(505,656,656)
Fund Balances - End of Year	<u>\$ 815,376,230</u>	<u>\$ 8,498,897</u>	<u>\$ 806,877,333</u>

Total revenues increased by \$6.3 billion or 23.0% compared to fiscal year 2024. Federal revenues increased by \$6.0 billion primarily due to an increase in Medicaid Expansion receipts as noted above. Total expenditures increased \$5.9 billion, or 16.7%, compared to fiscal year 2024 primarily due to Grants, State Aid and Subsidies increase of \$5.6 billion in Medicaid Expansion expenditures at the Division of Health Benefits for the first full year of increased enrollments and participation payments.

Total other financing sources (uses) increased \$893.1 million or 12.3%, compared to the prior year 2024. Transfers-in increased \$1.3 billion primarily due to Medicaid Expansion assessments, services and administration costs, Managed Care, and Health Advancement Receipts. Transfers-out

increased \$1.3 billion primarily for Medicaid Expansion and hospitals non-federal share of Medicare Expansion member costs. State appropriations increased \$760.8 million primarily at the Division of Health Benefits for Medicaid Expansion services. State appropriations are used to provide the non-federal share of federal programs. Transfers from the state reserve fund decreased \$110.2 million primarily due to unspent funds brought forward for obligations from fiscal year 2024.

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, 2025, the Department reported a fund balance of \$815.4 million, a \$806.9 million increase from the prior year 2024. There were significant fluctuations in the unassigned, restricted and committed fund balances. Unassigned fund balance deficit decreased by \$603.2 million from fiscal year 2024. Restricted fund balance increased \$51.6 million and committed fund balance increased by \$166.0 million resulting in an increase in the overall fund balance. These changes are primarily due to the impact of medical claims payable changes described in detail in the Financial Analysis of the Department section above and the depletion of unspent State Fiscal Recovery Funds (SFRF) from prior year.

Budget Variations

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

Variances – Original and Final Budget:

The final budgeted revenues and expenditures were \$3.7 billion and \$3.6 billion, respectively, more than the original budget. The budgeted revenue increases are primarily comprised of \$3.1 billion in the final budgeted federal funds, and \$443.2 million in local grants. The budgeted expenditure increases are primarily comprised of \$3.4 billion in aid and public assistance, and \$425.5 million 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 \$950.4 million less than the final budgeted revenue amounts. Actual total expenditures were \$1.2 billion less than budgeted expenditures. Budgeted revenues and expenditures were unrealized mostly due to a \$565.2 million decrease in aid and public assistance payments incurred versus the amount budgeted. This also causes a decrease in the federal funds received.

Variations 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 \$696.3 million less than budgeted.

Division Highlights and Economic Outlook

Highlights of certain divisions within the Department are listed below.

Division of Health Benefits (DHB)

- DHB total expenditures increased by 23.35% from SFY 2024 to SFY 2025, from \$25.4 billion in SFY 2024 to \$31.4 billion in SFY2025. The increased expenditures were driven primarily by four factors: (1) the launch of Tailored Plans (TPs) on July 1, 2024; (2) annualization for a full SFY with Medicaid Expansion (\$6.1 billion) and (3) the Healthcare Access and Stabilization Program (\$5.3 billion), excluding Medicaid Expansion as is already reflected in (2), and (4) the transfer out of approximately \$936 million of Medicaid Expansion “bonus” to the State Temporary Savings Fund. The latter three factors did not require any increase in General Fund State expenditures, as they are fully receipt-supported. NC Medicaid also received increased appropriations to support recurring increased reimbursement rates for long term care providers (e.g., Skilled Nursing Facilities, Adult Care Homes, Personal Care Services, Community Alternatives Programs), Behavioral Health Services, and select Home and Community-Based Services providers (e.g., Private Duty Nursing, Innovations Waiver).

The 23.35% increase in overall DHB expenditures was offset by a 33.54% increase in revenues. This increased revenue came primarily from the federal government through two mechanisms: (1) Medicaid Expansion added almost 185,000 new Medicaid members this SFY whose costs were funded 90% by federal receipts and 10% hospital and premium tax receipts, and (2) the Expansion “bonus” 5 percentage points of Federal Medical Assistance Percentage (FMAP) for states expanding Medicaid, as documented in section 9814 of the American Rescue Plan Act (ARPA) of 2021. This overall increase in revenue occurred even against downward pressure related to recent trends lowering North Carolina’s Federal Medical Assistance Percentage (FMAP).

- Medicaid ended SFY 2025 with approximately \$9,000 cash on hand that reverted to the State’s General Fund.
- As shown in the point-in-time enrollment counts published on DHB’s website, Medicaid’s enrollment grew by 139,406, or 4.69%, from a total of 2,971,562 members at the end of SFY 2024 to 3,110,968 members as of June 30, 2025. Changes in Medicaid enrollment for SFY 2025 were related to Medicaid Expansion as referenced above.
- DHB’s gross direct spending on pharmacy dropped from SFY 2024 to SFY 2025 by \$618.7 million, as much of the spending continued to flow through our contracted health plans, including the TPs launched on July 1, 2024. While the health plans’ pharmacy spending was covered through capitation payments, DHB still collected the drug rebates related to the pharmacy claims paid by the health plans. DHB’s drug rebates increased from \$1.6 billion in SFY 2024 to \$2.0 billion in SFY 2025.

- Due to a lack of a timely, comprehensive budget for SFY 2026 from the North Carolina General Assembly (NCGA), DHB was facing a projected shortfall of about \$319 million for services to beneficiaries at the end of the first quarter. DHB in working with North Carolina Department of Health and Human Services (NCDHHS) and the Office of State Budget and Management (OSBM), implemented rate reductions to Medicaid providers between 3% and 10% effective for October 1, 2025. Several legal rulings and pending litigation regarding the rate reductions led DHB to determine in December 2025 that maintaining the reductions would not be feasible, so DHB returned provider reimbursement rates that had been reduced to September 30, 2025 levels. As a result, and in light of actual expenditures through September 2025, DHB again projects a potential budget shortfall of approximately \$319 million for SFY 2026. In addition, due to the lack of a timely, comprehensive budget for SFY 2026, DHB had to put the Healthy Opportunity Pilot (HOP) services on pause effective on July 1, 2025, and reduce or eliminate administrative contracts that are needed to run the Medicaid program. Finally, since earlier versions of both the House and Senate biennium budgets included eliminating vacant state positions, DHB has been required to not fill a certain amount of its vacant state positions.

Division of Health Service Regulation (DHSR)

- DHSR is working with the Information Technology Division to replace 7 Legacy FoxPro IT systems, which are no longer supported by Microsoft. These systems will continue to be critical to the work of DHSR during the estimated 1 year remaining to develop the new system (Enterprise) and to convert the data from the Legacy IT system to Enterprise. The General Assembly has approved a budget of \$6.7 million for the development of the new systems; however, additional funding will be needed to operate and maintain the system that is critical to the work of DHSR.

Division of Public Health (DPH)

- The Division of Public Health (DPH) received a no-cost extension on several grants related to and awarded during the COVID-19 pandemic. DPH will face a funding cliff when these grants end:
 - National Initiative to Address Covid-19 Health Disparities Among Populations at High-Risk and Underserved, Including Racial and Ethnic Minority Populations and Rural Communities issued 2021 was extended until May 31, 2026.
 - COVID-19 Centers for Disease Control and Prevention (CDC) Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infections Diseases Supplements issued prior to 2023 including CARES, Enhancing Detection, Enhancing Detection Expansion, and Infection Prevention and Control have been extended until July 31, 2026.
 - COVID-19 CDC Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infections Diseases Supplements issued in 2023 and 2024 such as National Wastewater Surveillance Systems, Data Modernization, Strengthening Healthcare-associated infections & Antimicrobial Resistance Program Capacity, and Advanced Molecular Detection Sequencing & Analytics have been extended until July 31, 2027.

- DPH received additional funding for SFY 2025 in the amount of \$5,296,524 for Foundational Capabilities Strategy A2 on the Strengthening U.S. Public Health Infrastructure, Workforce, and Data Systems (PH Infrastructure) Supplement.
- Changes to the terms and conditions of federal grant renewals allow the federal funding entity to reduce or terminate funding at their discretion.

Division of Aging & Adult Services (DAAS)

- North Carolina's population is aging rapidly, with 18.4 percent now age 65 or older and the number of centenarians projected to rise by 293 percent by 2050. In 88 counties, older adults already outnumber children. In response, the Division leads *All Ages, All Stages NC*, a cross-sector initiative established by Executive Order 280 to integrate aging considerations across Cabinet agencies. The plan aligns existing programs to promote age-friendly policies in transportation, workforce, housing, technology, and health. Initial ARPA support funded outreach, staffing, and a data dashboard with UNC Sheps Center for Health Services Research; future implementation will depend on interagency collaboration and shared ownership, as the initiative has no ongoing funding allocation to sustain this work.
- The Division administered more than \$5.1 million in annual Emergency Solutions Grant (ESG) funds, \$4.9 million in Rapid Unsheltered Survivor Housing (RUSH) disaster-recovery funds, and \$15 million in State Fiscal Recovery Funds (SFRF) to strengthen homelessness prevention and home repair programs for older adults and disaster-affected households. The Division also managed \$9.2 million under *Project 6 – Housing & Home Improvement* to support aging in place and completed the closeout of \$54.8 million in Emergency Solutions Grants – CARES Act (ESG-CV) COVID funds, with over \$50 million expended. The *Back@Home* housing program transitioned to the DHHS Olmstead Office in July 2025 to streamline recovery and reentry services.
- Temporary ARPA investments totaling more than \$43 million expanded access to nutrition, caregiving, hospital discharge meals, and digital inclusion services across the aging network. As these one-time funds conclude by FY 2026, the Division anticipates service reductions unless additional resources are identified. The Long-Term Care Ombudsman Program used \$563,494 in ARPA funds to expand elder abuse prevention and outreach in adult care homes, while potential federal cuts threaten the program's sustainability. Similarly, proposed elimination of the Senior Community Service Employment Program (SCSEP) could significantly impact older adults with barriers to employment.

Division of Child Development and Early Education (DCDEE)

- During SFY 2024-25, DCDEE completed the transition from temporary American Rescue Plan Act (ARPA) programs to its recurring federal and state funding base. All ARPA childcare grants concluded on September 30, 2024, ending pandemic stabilization efforts and returning the Division to sustainable operations supported by the Child Care and Development Fund (CCDF), Temporary Assistance for Needy Families (TANF), and state appropriations.

- Federal Child Care and Development Fund (CCDF) discretionary funding increased by approximately 6.9 percent, from \$260.8 million in FFY 2024 to \$278.8 million in FFY 2025, along with an additional \$8.2 million in CCDF Non-Disaster Discretionary Supplemental funds. In general, these resources allow DCDEE to strengthen the childcare subsidy system by lowering costs for families, improving provider payments, and upgrading data systems.
- In September 2024, DCDEE was awarded a three-year Preschool Development Grant Birth-to-Five (PDG B-5) Renewal Grant totaling up to \$27 million (\$9 million annually through September 2027) with a 30 percent non-federal match. This grant supports early learning coordination, data integration, and quality improvement through innovation across the state.
- Pursuant to Session Law 2024-40 (Senate Bill 357), DCDEE extended childcare stabilization supports using \$67.5 million in blended funding from the State Fiscal Recovery Fund (\$32.9 million), CCDF Discretionary funds (\$25.5 million), and the State General Fund (\$9.1 million). This funding maintained provider compensation and childcare access initiatives during the transition from sunseting federal resources. The end of state funds supporting provider compensation through stabilization grants in the third quarter of SFY 2024-2025 has adversely impacted childcare providers' ability to cover expenses and thus to remain open, with monthly closures continuing to increase.

Division of Child and Family Well-Being (DCFV)

- H.R.1 (Public Law No. 119-21) significantly impacts the operations of the Supplemental Nutrition Assistance Program (SNAP) for FFY 2026-2028.
 - Sec. 10106 of H.R.1 amends Section 16(a) of the Food and Nutrition Act and reduces the amount that U.S. Department of Agriculture (USDA) may pay a state agency for administrative costs involved in its operation of SNAP to 25%, from the current 50%, beginning in FFY 2027. The change in administrative cost sharing will likely increase North Carolina's state administrative costs by \$16 million dollars and North Carolina county administrative costs by \$69 million.
 - Sec. 10105 of H.R.1 amends Section 4(a) of the Food and Nutrition Act to require state matching funds requirements in FFY 2028 for the cost of SNAP benefit allotments determined based on a state's SNAP payment error rate. The benefit allotment cost shift ranges from a state share of 0 to 15 percent of program allotments. North Carolina's cost share would be \$420 plus million per year based on FFY 2024 payment error rate (10.21%) and benefit allotment amount (over \$2.8 billion).
- For SFY24-25, DCFV implemented the Summer EBT (SUN Bucks) program authorized by USDA. Funding for the required state match was provided by philanthropic organizations, but future programmatic availability depends on state appropriation to continue the program on a recurring basis.
- Session Law 2025-89 (Continuing Budget Operations) called for a reduction in funding from the Mental Health and Substance Use Task Force Reserve for DCFV of \$4,875,000 for Care Management Services, specifically for High Fidelity Wraparound (HFW). It also appropriates

\$3,447,205 to DCFW for this same purpose. This creates a gap of \$1,427,795 for the current HFW initiative. The initiative provides funding to a state university to conduct training, fidelity monitoring and implementation of the service state-wide. Given the plan to establish HFW as a Medicaid covered service, DCFW will need to seek other funding opportunities to support this planned work.

Division of Services for Deaf and Hard of Hearing (DSDHH) and Division of Employment and Independence for People with Disabilities (DEIPD)

- NCGS 62-157 authorizes the NC Utilities Commission (NCUC) to impose a surcharge on wireline and wireless connections to support DSDHH operations. Effective June 1, 2023, the surcharge amount was increased from \$0.08 to \$0.16. DSDHH now has the funds to not only sustain operations but to also expand programmatically in response to the projected growth in the hearing loss population over the next several years. However, in anticipation of a significant decline in funding from the surcharge on wireline connections (which are being phased out industry-wide), DSDHH plans to propose an amendment to NCGS 62-157 during the 2025 legislative session to add Voice-over Internet Protocol (VoIP) as a funding source along with wireless connections. Having two reliable funding sources (wireless and VoIP) would help to ensure long-term stability in funding for DSDHH as well as lower the burden on each individual rate payer in North Carolina.
- Furthermore, in the 2025 Governor's Budget, Governor Stein recommended an additional \$5.7 million to stabilize the NC Vocational Rehabilitation Programs (Division of Services for the Blind and Division of Employment and Independence for People with Disabilities) in order to pull down an additional \$21 million in federal funding which would be used to increase some staff salaries to better attract and maintain staff and stabilize community provider rates. This request has not yet been funded by the General Assembly.
- Additionally, DEIPD was awarded a 5-year grant in 2022. This grant was called the Subminimum Wage to Competitive Integrated Employment (SWTCIE) project which granted DEIPD over \$14 million in federal funding to assist individuals with intellectual and developmental disabilities (I/DD) achieve competitive integrated employment.
- The Division of Services for the Blind (DSB) and DEIPD utilize Medicaid fee schedules and reimbursement rates for physical restoration and medical eye care services. As of October 10, 2025, due to lack of General Assembly funding, NC Medicaid reduced rates by 3% to 10%. Therefore, the reimbursement to contracted providers will be reduced related to the Medicaid rate cuts which directly impacts them and puts the division at risk of losing providers of essential services. See more details in the Division of Health Benefits section above.

Division of Social Services (DSS)

- For FY24-25, DSS continued its effort to replace antiquated, legacy IT systems with new, state-of-the-art applications in Child Welfare (CWIS), Child Support (ACTS) and County DSS Reimbursement (CARS) that are critical to meeting current and future data demands. The General Assembly has approved funding to cover the non-federal share for systems

development, acquisition and implementation for each of these projects. Implementation of the CARS system is projected to result in a net increase in federal funding, thereby reducing state/county costs, potentially resulting in those funds being reinvested in additional services.

Division of Mental Health/Developmental Disabilities and Substance Use Services (DMH/DD/SUS)

- DMH/DD/SUS anticipates significant financial impacts in Fiscal Year 2025–26 due to budgetary reductions and policy changes enacted under Session Law 2025-89. These changes will affect the availability of critical mental health, developmental disability, and substance use services across the state and require substantial realignment of existing resources.
 - Elimination of the Mental Health and Substance Use Task Force Reserve Fund
 - Section 2B.3(a–f) of Session Law 2025-89 repeals the Mental Health and Substance Use Task Force Reserve Fund originally established in Session Law 2016-94.
 - The fund's unrestricted balance (less any obligations from FY 2024–25) is redirected to the General Fund for single-stream funding. However, \$41,816,351 in nonrecurring single-stream funding is cut in FY 2025–26 to offset the transfer.
 - Additionally, recurring appropriations to the Task Force Reserve Fund are reduced by \$10 million per year for FYs 2025–26 and 2026–27.
 - Reduction in Three-Way Bed Contracts
 - Section 2B.4 of the same law reduces recurring funds by \$15,675,205 per year for inpatient psychiatric treatment at local community hospitals under the three-way bed contract model.
 - Reduction in Single-Stream Funding
 - Section 2B.5(a) imposes an additional reduction of \$18,562,645 in recurring single-stream funding for each year of the 2025–2027 biennium.
 - While the legislation requires Local Management Entities to maintain the same aggregate service utilization levels as FY 2024–25, it does not require continuation of services at the individual level, and it explicitly states this is not intended to create a legally enforceable right to services for any individual or entity.
- Combined, these reductions total over \$86 million in recurring and nonrecurring cuts in FY 2025–26 alone, not including the multi-year implications of recurring reductions across the biennium. These cuts will significantly constrain the Division's ability to fund community behavioral health, crisis response, and housing transition services.
- Recent Medicaid Expansion in North Carolina is cited in the budget as the rationale for certain reductions, including the \$15.7 million recurring cut to funding for three-way bed contracts. While Medicaid Expansion is expected to improve access to care for newly eligible populations, the simultaneous reduction in state-funded behavioral health services, particularly those that support individuals who are not Medicaid-eligible, creates a significant risk of service gaps.

These changes may impact the continuity of care for vulnerable populations who rely on non-Medicaid-funded support.

Office of Rural Health (ORH)

- Session Law 2025-89 included a recurring reduction of \$2 million to ORH's loan repayment program. This program supports loan repayment and high needs service bonuses to primary care, behavioral health, and dental providers who agree to practice in rural and underserved areas.
- A grant from the National Institutes of Health (NIH) was terminated due to federal funding reductions. The NIH award was budgeted for 10 years for a total of \$12 million, focused on digital inclusion of agricultural workers in the state.
- A grant from the Centers for Disease Control (CDC) was terminated due to federal funding reductions. The CDC award was in the final year of a four-year, \$9 million grant focused on Community Health Workers for COVID-19 Response to support populations hit hardest by COVID-19.

Central Administration (CA)

- Besides Central Administration receiving \$120.6M in American Rescue Plan Act (ARPA) Section 9814's Medicaid's "sign on bonus" in SFY2025 (of which \$40.6M of it was earmarked for the Office of Rural Health), there were no significant changes or fluctuations in their financial position. Central Administration continues to operate within expectations.

Disability Determination Services (DDS)

- The North Carolina Disability Determination Services (NC DDS) is the seventh largest Disability Determination Services in the nation. In Federal Fiscal Year 2025, NC DDS processed a total of 125,435 claims at a cost of \$74,469,694 for North Carolinians. For the first time, NC DDS was able to position itself to support other state Disability Determination Service agencies and nationally supported a total of 132,985 closures which includes the work for North Carolina, South Carolina, Florida, and California. South Carolina and Florida have significant backlogs of claimants waiting longer than one year for a decision on their disability application. NC DDS agreed to pilot for SSA a Quick Closure project to support these states which was beneficial to support the people waiting so long for a decision on their disability benefit application.
- For Federal Fiscal Year 2025-2026, the Social Security Administration (SSA) has assigned a caseload closure goal of 122,470. The NC DDS has 731 positions with 209 currently vacant.
 - It should be noted NC DDS has not received hiring authority to replace separated employees due to retirements, staff who have moved out of state, etc. in more than a year. NC DDS has also not received consistent overtime for use to support its work. The inconsistent resources negatively impacts business needs to meet the Workload Targets given by the SSA.



Financial Statements

**North Carolina Department of Health and Human Services
Balance Sheet
Governmental Funds
June 30, 2025**

Exhibit A-1

	<u>General Fund</u>	<u>Other Governmental Funds¹</u>	<u>Total Governmental Funds²</u>
ASSETS			
Cash and Cash Equivalents (Note 2)	\$ 1,382,380,113	\$ 127,083,738	\$ 1,509,463,851
Receivables:			
Accounts Receivable, Net (Note 4)	321,723,839	168,273	321,892,112
Intergovernmental Receivables (Note 4)	4,448,932,415	1,142,486	4,450,074,901
Other Receivables	181,548	83,394	264,942
Due from Other Funds	2,275,998		2,275,998
Inventories	15,145,905	291,902	15,437,807
 Total Assets	 <u>6,170,639,818</u>	 <u>128,769,793</u>	 <u>6,299,409,611</u>
DEFERRED OUTFLOWS OF RESOURCES			
	0	0	0
 Total Assets and Deferred Outflows	 <u>\$ 6,170,639,818</u>	 <u>\$ 128,769,793</u>	 <u>\$ 6,299,409,611</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 230,669,137	\$ 7,148,426	\$ 237,817,563
Intergovernmental Payables (Note 5)	719,019,608	439,865	719,459,473
Medical Claims Payable (Note 6)	4,174,760,817	201,972	4,174,962,789
Due to Other State Agencies and Funds	30,516,294	785,816	31,302,110
Due to State of North Carolina Component Units	276,731,842		276,731,842
Other Liabilities		6,320	6,320
 Total Liabilities	 <u>5,431,697,698</u>	 <u>8,582,399</u>	 <u>5,440,280,097</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	43,753,284	0	43,753,284
FUND BALANCES			
Nonspendable Inventories	15,145,908	291,902	15,437,810
Restricted for Health and Human Services	193,473,631	1,439,437	194,913,068
Committed to Health and Human Services	823,408,321	117,037,959	940,446,280
Assigned to Health and Human Services	8,654,424	1,989,448	10,643,872
Unassigned	(345,493,448)	(571,352)	(346,064,800)
 Total Fund Balances	 <u>695,188,836</u>	 <u>120,187,394</u>	 <u>815,376,230</u>
 Total Liabilities, Deferred Inflows, and Fund Balances	 <u>\$ 6,170,639,818</u>	 <u>\$ 128,769,793</u>	 <u>\$ 6,299,409,611</u>

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

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

² See supplementary schedules C-1 through N-1 for detailed information by Division.

**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, 2025**

Exhibit A-2

	General Fund	Other Governmental Funds ¹	Total Governmental Funds ²
REVENUES			
Federal Funds	\$ 31,664,477,426	\$ 76,378,670	\$ 31,740,856,096
Federal COVID-19 Funds	255,549,835		255,549,835
Local Funds	129,243,927		129,243,927
Sales and Services	1,656,125	1,766,248	3,422,373
Patient Service Revenue, Net (Note 7)	33,181,090		33,181,090
Fees, Licenses, and Fines (Note 8)	874,388,717	4,017,292	878,406,009
Contributions, Gifts and Grants	14,802,240	169,974	14,972,214
Revenues from Other State Agencies (Note 9)	295,968,491	65,737,134	361,705,625
Miscellaneous Revenues	89,687,576	829,101	90,516,677
	<u>33,358,955,427</u>	<u>148,898,419</u>	<u>33,507,853,846</u>
EXPENDITURES			
Salaries and Benefits	1,269,062,336	53,541,377	1,322,603,713
Contracted Personal Services	1,040,650,804	29,711,651	1,070,362,455
Supplies and Materials	62,521,886	884,234	63,406,120
Travel	10,029,971	61,764	10,091,735
Communication	13,552,704	380,810	13,933,514
Utilities	20,105,938	18,939	20,124,877
Data Processing Services	13,534,694	2,264	13,536,958
Other Services	42,679,426	1,375,712	44,055,138
Lease/Subscription Expenditures:			
Principal Payments	32,369,862	2,129,682	34,499,544
Interest and Fees	5,853,178	402,977	6,256,155
Other Fixed Charges	62,608,183	1,816,089	64,424,272
Capital Outlay	60,178,984	36,113,194	96,292,178
Grants, State Aid, and Subsidies (Exhibit O-1)	37,419,820,350	12,928,180	37,432,748,530
Expenditures to Other State Agencies (Note 9)	636,962,141		636,962,141
Other Expenditures	40,815,001	312,019	41,127,020
	<u>40,730,745,458</u>	<u>139,678,892</u>	<u>40,870,424,350</u>
Excess of Revenues Over (Under) Expenditures	<u>(7,371,790,031)</u>	<u>9,219,527</u>	<u>(7,362,570,504)</u>
OTHER FINANCING SOURCES (USES)			
State Appropriations	8,037,198,987		8,037,198,987
Transfers In (Note 10)	4,975,732,153	12,914,591	4,988,646,744
Transfers Out (Note 10)	(4,973,437,533)	(15,209,211)	(4,988,646,744)
Transfers from State Reserve Fund	350,409,004		350,409,004
Transfers to State Reserve Fund	(243,100,924)		(243,100,924)
Leases/Subscriptions Issued	24,763,744		24,763,744
Other	81,456	95,570	177,026
	<u>8,171,646,887</u>	<u>(2,199,050)</u>	<u>8,169,447,837</u>
Net Change in Fund Balances	799,856,856	7,020,477	806,877,333
Fund Balances - Beginning of Year	<u>(104,668,020)</u>	<u>113,166,917</u>	<u>8,498,897</u>
Fund Balances - End of Year	<u>\$ 695,188,836</u>	<u>\$ 120,187,394</u>	<u>\$ 815,376,230</u>

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

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

² See supplementary schedules C-2 through N-2 for detailed information by Division.



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 operations of the Department are led by the Secretary of Health and Human Services, a member of the Governor's cabinet.

The Department manages the delivery of health and human-related services for all North Carolinians, specifically the most vulnerable people – children, elderly, disabled, and low-income families. For the purposes of financial reporting, these services are provided through 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.

Employment and Independence for People with Disabilities - This division helps people with disabilities achieve their goals for competitive employment and more independent living in communities statewide. 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.

Child and Family Well-Being (Child and Family) - This division works to promote healthy and thriving children in safe, stable and nurturing families, schools and communities. The division includes complementary programs that primarily serve children and youth to improve their health and well-being.

Mental Health/Developmental Disabilities and Substance Use Services (Mental Health) - This division provides support for individuals with intellectual and/or developmental disabilities and treatment for individuals with mental illness and substance use 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.

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, 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 uncollectible amounts.

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 adjustments 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** - 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 adjustments 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. 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. 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 7 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 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 and Investments

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, 2025 the Balance Sheet reported cash and cash equivalents of \$1,509,463,851 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 other regulatory oversight and does not have a credit rating) had a weighted average maturity of 2.1 years as of June 30, 2025. 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, 2025. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

Short-Term Investment Fund - At year-end, the Department's investments held in the STIF were valued at \$1,509,463,851. 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, 2025 were as follows:

Governmental Funds:	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Accounts Receivable:			
General Fund	\$ 1,032,031,674	\$ 710,307,835	\$ 321,723,839
Other Governmental Funds	333,150	164,877	168,273
Total Accounts Receivable	\$ 1,032,364,824	\$ 710,472,712	\$ 321,892,112

General Fund accounts receivable primarily consists of cost settlements, bed assessments, drug rebates, provider overpayments, and patient services including reimbursements from Medicaid, Medicare, commercial insurance carriers, and managed care organizations.

Intergovernmental receivables at June 30, 2025 were as follows:

	General Fund	Other Governmental Funds	Total
Intergovernmental Receivables:			
Due from Federal Agencies:			
Department of Health and Human Services	\$ 4,309,011,191	\$ 1,083,602	\$ 4,310,094,793
Department of Agriculture	101,087,747	25,421	101,113,168
Department of Education	24,035,442	6,044	24,041,486
Social Security Administration	11,649,007	2,929	11,651,936
Department of Housing and Urban Development	1,268,611	319	1,268,930
Other	680,508	171	680,679
Due from County and Local Agencies	1,199,909	24,000	1,223,909
Total Intergovernmental Receivables	\$ 4,448,932,415	\$ 1,142,486	\$ 4,450,074,901

Note 5 - 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, 2025 were as follows:

	General Fund	Other Governmental Funds	Total
Intergovernmental Payables:			
Due to Federal Agencies:			
Department of Health and Human Services	\$ 567,808,178	\$ 0	\$ 567,808,178
Department of Agriculture	13,320,563		13,320,563
Department of Education	3,167,205		3,167,205
Social Security Administration	1,535,016		1,535,016
Department of Housing and Urban Development	167,168		167,168
Other	89,671		89,671
Due to Local Governments	132,931,807	439,865	133,371,672
Total Intergovernmental Payables	\$ 719,019,608	\$ 439,865	\$ 719,459,473

Note 6 - 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 Paid (IBNP).

The medical claims liability balance also includes amounts due based upon specifically identified provider accounts. The medical claims liability balance also includes amounts due to identified providers for the Healthcare Access and Stabilization Program (HASP).

The Medicaid claims payable is offset by an intergovernmental receivable of approximately 91.18% as of June 30, 2025, reimbursed by the U.S. Department of Health and Human Services, the Centers for Medicare and Medicaid Services.

Note 7 - 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. All of this activity is recorded in the Department’s General Fund.

A summary of the Division of Mental Health’s net patient service revenue for the year ended June 30, 2025 is presented as follows:

	<u>General Fund</u>
Gross Patient Service Revenue	\$ 887,971,053
Deduct:	
Contractual Adjustments:	
Contractual Allowances	21,273,632
Disproportionate Share Hospital	(221,625,982)
Bad Debt	329,250,387
Third Party Reimbursement Programs:	
Federal Funds - State Medicaid Program	256,585,281
Federal Funds - Managed Care Organizations	253,517,123
Transfers - Non-Federal Share from DHB	<u>215,789,522</u>
Net Patient Service Revenue	<u>\$ 33,181,090</u>

Note 8 - Fees, Licenses, and Fines Revenues

Fees, licenses, and fines for the fiscal year ended June 30, 2025 were as follows:

	General Fund	Other Governmental Funds	Total
Business License Fees	17,907,023	204,050	18,111,073
Non-Business Permit License Fees	2,321,290	390,707	2,711,997
Certification Fees	520,178		520,178
Inspection and Examination Fees	3,171,253	13,000	3,184,253
Fines, Penalties, and Assessment Fees	9,658,968	19	9,658,987
Registration Fees	317,513	520	318,033
Public and Private Hospital Assessments	559,014,349		559,014,349
Other Licenses, Fees, and Permits	20,405,747	3,409,019	23,814,766
Cost Recoveries	247,815,654		247,815,654
Intermediate Care Facility Assessments	11,556,136		11,556,136
Provider Enrollment Fees	2,873,837		2,873,837
Miscellaneous	80,996		80,996
Civil Fines and Penalties - Transfer	(1,254,227)	(23)	(1,254,250)
Total Fees, Licenses, and Fines	\$ 874,388,717	\$ 4,017,292	\$ 878,406,009

Note 9 - 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, 2025 were as follows:

Revenues from Other State Agencies

Other State Agencies	General Fund	Other Governmental Funds	Total
Office of State Budget and Management	\$ 230,090,959	\$ 39,862,332	\$ 269,953,291
Office of the State Controller	61,322,170	4,478,462	65,800,632
Department of Public Safety	335,911		335,911
Administrative Office of the Courts	763,091		763,091
Department of Information Technology		18,396,340	18,396,340
Department of Public Instruction	2,702,738		2,702,738
Department of Revenue		2,000,000	2,000,000
Department of Transportation	753,622		753,622
NC Education Lottery		1,000,000	1,000,000
Total Revenues from Other State Agencies	\$ 295,968,491	\$ 65,737,134	\$ 361,705,625

Expenditures to Other State Agencies

<u>Other State Agencies</u>	<u>General Fund</u>
Office of State Budget and Management	\$ 422,982,000
Office of the State Controller	173,308,575
Department of Administration	384,410
Department of Justice	239,641
Department of Public Safety	2,274,081
Department of Revenue	773,434
Department of Public Instruction	1,000,000
Community College System	36,000,000
Total Expenditures to Other State Agencies	\$ 636,962,141

Note 10 - Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2025 consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue Funds</u>	
General Fund	\$4,960,866,583	\$ 12,570,950	\$4,973,437,533
Special Revenue Funds	14,865,570	343,641	15,209,211
Total	\$4,975,732,153	\$ 12,914,591	\$4,988,646,744

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 during the year ended June 30, 2025 were \$4,960,866,583 for the General Fund and \$343,641 Special Revenue 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 11 - Retirement 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 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, LEAs, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Effective January 1, 2024, new employees hired by UNC Health Care or by certain components of East Carolina University, who were not actively contributing to TSERS immediately before they were hired by those entities, are not eligible to join TSERS. 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 unreduced 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 reduced 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

TSERS plan members who are LEOs are eligible to retire with unreduced 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 reduced 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 reduced 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 in lieu of the return of the member's contributions that is generally available to

beneficiaries of decrease members. The plan does not provide for automatic post-retirement benefit increases.

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, 2025 was 16.79% of covered payroll. Plan members' contributions to the pension plan were \$54,719,043 and the Department's contributions were \$153,122,121 for the year ended June 30, 2025.

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 2024 *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.ncosc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

Note 12 - Other Postemployment Benefits

Other postemployment benefit contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net other postemployment benefits liability is not reported on the face of the governmental funds' 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 2024 *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.ncosc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

A. 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 a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 13. The plan options change when the 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 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 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 (CJRS), the Legislative Retirement System (LRS), 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 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 repealed retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amended Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the TSERS (or in an allowed local system unit), CJRS, or LRS 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 Act. The Department's contractually-required contribution rate for the year ended June 30, 2025 was 6.99% of covered payroll. The Department's contributions to the RHBF were \$63,747,685 for the year ended June 30, 2025.

In fiscal year 2023, the Plan transferred \$35 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 recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2025, the Department recognized noncapital contributions for RHBF of \$411,218.

2. Disability Income

Plan Administration: As discussed in Note 13, 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 State's 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, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. 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 becoming disabled 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. A general 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; (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, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, 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, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act 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, 2025 was 0.13% of covered payroll. The Department's contributions to DIPNC were \$1,185,579 for the year ended June 30, 2025.

Note 13 - 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 12, 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 Teachers' and State Employees' Retirement System. 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 12, 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**

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.

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.

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 Use 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 14 - 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, 2025, 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. CMS has not demanded any recovery of these funds.

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 the firm of Brown and Peisch as a resource for the AG staff attorney in writing the brief and preparing the case. 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.

Samantha R. v. N.C. and DHHS: 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. On November 30, 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. Plaintiffs filed a motion in March 2023 to amend the scheduling order, asking to take new discovery relating to their substantive dues process claim. In April 2023, the Department opposed the motion and it is pending before the Court. The parties have filed the record on appeal with the NC Court of Appeals. The parties also agreed to mediation through the appellate court, which began in August 2023. On April 10, 2024, the parties filed a joint motion and proposed consent order with the Superior Court which reflects the parties' agreement to resolve the appeal and outstanding claims in the litigation. The parties appeared before the Superior Court on April 17, 2024. The Superior Court approved the parties' plan, and upon receipt of a signed court order, the Department will dismiss the appeal and the case would continue with Superior Court continuing to monitor the parties' compliance with the proposed consent order. NCDHHS has ongoing quarterly reporting requirements through 2025 and part of 2026. The Consent Order provides that the parties will confer and propose potential further actions to the Court by July 1, 2026. The risk of adverse fiscal impact is reasonably possible.

Timothy P, Flora B, Isabella A, Steph C, DRNC, NC NAACP v. Kody Kinsley in his official capacity & NC DHHS, 22-cv-1046 (MDNC): Plaintiffs are working with outside counsel Moore & Van Allen. DHHS is working with outside counsel Brown and Peisch. Class Action Complaint for Declaratory and Injunctive Relief filed on 12/6/2022. The complaint alleges that DHHS unlawfully places children with disabilities in child welfare custody ("foster care") who are unnecessarily segregated from their home communities and routinely isolated in heavily restrictive, and often clinically inappropriate, institutional placements known as psychiatric residential treatment facilities ("PRTFs"). The claims are raised as unlawful pursuant to policies, procedures, and practices that violate Title II of the Americans with Disabilities Act, 42 U.S.C. § 12131 et seq., or Section 504 of the Rehabilitation Act, 29 U.S.C. § 794 et seq., Plaintiffs offered to stay the proceedings pending settlement discussions and DHHS is amenable to discussing settlement. NCDHHS filed its motion to dismiss on March 20, 2023. Plaintiff has filed its response to the motion to dismiss on April 10, 2023. In April 2024 the court denied NCDHHS's motion to dismiss. The parties are in conversation on a potential resolution of this case while the litigation remains active. The parties mediated the case in June and July of 2025 and were unable to reach a settlement. The parties are proceeding with discovery. The risk of adverse fiscal impact is reasonably possible.

Jameson C., et. al. v. Cooper, et. al., 3:24-cv-00783 (WDNC): Plaintiffs are working with outside counsel Nelson Mullins and A Better Childhood, Inc. (New York, New York). DHHS is working with outside counsel Brown and Peisch. Class Action Complaint August 27, 2024. The complaint alleges that DHHS, Mecklenburg County and Gaston County are violating the rights of children in foster care. The claims are raised as unlawful pursuant to policies,

procedures, and practices that violate the plaintiffs Substantive and Procedural Due Process rights, Title II of the Americans with Disabilities Act, Section 504 of the Rehabilitation Act, and various other state and federal child welfare laws. The Department's responsive pleadings (motion to dismiss and potentially the answer) are due at the end of November 2024. We are awaiting the court's decision.

Bolch v. Governor, DHHS, Kody Kinsley, Susan Osborne, Mark Payne, Mecklenburg DSS & Gaston DSS — Plaintiffs, working with A Better Childhood, filed this Class Action Complaint on August 27, 2024, in the Western District alleging systemic issues in the child welfare system in violation of the Constitution, the Adoption Assistance and Child Welfare Act, and the Americans with Disabilities Act (ADA). The State Defendants filed motions to dismiss in December 2024. On September 25, 2025, the Court granted the motion to dismiss and dismissed the case without prejudice. Plaintiffs filed a motion to reconsider that is pending before the Court. If Plaintiffs are successful with the motion to reconsider or a subsequent appeal, fiscal exposure of the State may be substantial.

C. Commitments - As of June 30, 2025, the Department had commitments of \$30,461,223 related to construction and improvements of state government facilities, primarily within the Division of Mental Health.

D. Other Contingent Receivables - 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. Funding has continued each budget year at appropriate levels to meet the terms of the agreement. In Session Law 2015-241, the North Carolina Housing Finance Agency (NCHFA), in consultation with the Department, was authorized to administer the Community Living Housing Fund (CLHF) in order to provide permanent community-based housing in integrated settings appropriate for individuals with severe mental illness and severe and persistent mental illness. The funds are first transferred from the Department and then must be appropriated by the General Assembly in order for the NCHFA to expend the funds. DHHS transferred \$2.89 million to the Community Living Housing Fund in fiscal 2015. House Bill 1030 authorized the NCHFA to expend receipts of \$5.52 million transferred from the Department to the CLHF in fiscal 2017. Session Law 2017-57 and Session Law 2018-5 provided funds of \$4.2 million and \$3.96 million, respectively, transferred from the Department to the CLHF. In fiscal years 2019 through 2021, the Department transferred \$10.47 million to the CLHF and Session Law 2020-97 appropriated those funds for the State

to meet its commitment to the supported housing requirements of the agreement. At present, the work continues with the funds available through continuing budget provisions. The Department did not transfer any funds to the CLHF for SFY 2021-22, SFY 2022-23 or SFY 2023-24 as no funds remained in accordance with the law. 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. In March 2023, the parties entered into another two-year extension of the agreement, which included the development and approval of an Implementation Plan to outline how the State will come into substantial compliance by July 2025.

Disability Rights North Carolina v. the Department, a lawsuit was filed, April 24, 2024, in the Middle District federal court of North Carolina. DRNC, by associational standing alleges violations of the (1) Fourteenth Amendment Due Process Clause, (2) Americans with Disabilities Act, and (3) Rehabilitation Act, related to the Department ongoing statutory obligations to (1) evaluate criminal defendants suspected of being incompetent to proceed to trial (ITP), and (2) after being determined ITP, provide restorative treatment. DRNC alleges that wait times constitute constitutional and statutory violations. DRNC filed a motion for preliminary injunction on May 13, 2024. The parties have filed responsive briefings on the preliminary injunction. The court heard arguments on the PI and Motion to Dismiss in March 2025. It concluded and recommended that the motion for preliminary injunction be denied, and that the motion to dismiss be denied in part and granted in part. In July 2025, both parties filed objections to portions of the Recommendation, which remain pending before the Court. The risk of adverse fiscal impact is reasonably possible. We are awaiting a decision.

Hawkins v. Cohen (now captioned *Franklin v. Kinsley*) was filed in federal court in October 2017 as a class action with the plaintiffs represented by the Charlotte Center for Legal Advocacy. Plaintiffs allege violations across three subclasses of plaintiffs: 1) improper terminations from Medicaid due to lack of notice and lack of a pre-termination hearing; 2) failure to make individualized determinations across all eligibility categories during the redetermination process and failure to accommodate disabilities during the process; and 3) failure to make individualized determinations across all eligibility categories during the redetermination process and failure to communicate in the beneficiary's primary language during the process. Nearly all of the allegations relate to actions and alleged failures of local DSS offices. Counsel for the Department is seeking a dismissal on several grounds; however, Plaintiffs are seeking an injunction that, if granted as requested, could result in programming changes to NC FAST as well as payment for Medicaid services for individuals who are not eligible for Medicaid. The federal court judge has granted an injunction and DHHS is working

to comply with that injunction. The parties communicated to the Court that a settlement agreement would be sent to the Court by 7/31/22. The Court stayed all of the proceedings in the case. The timeline for implementing all the technical changes will extend into 2023, but the settlement agreement will effectively end the active case. The parties have submitted an agreed upon settlement to the court and was formally approved in January 2023. The court retains jurisdiction over the case until the settlement has been fully implemented. On January 9, 2024, Plaintiff's counsel filed a Motion to Compel alleging that the Department was not compliant with obligations to produce materials for compliance monitoring. On February 24, 2024, Plaintiff's counsel filed a second Motion to Compel alleging that the Department was in substantial non-compliance with the terms of the settlement as it relates to individual class members. The parties are working to come to a resolution of the issues raised in the two Motions to Compel. Mediation took place in June 2025 but a resolution was not reached. The parties continue to negotiate.

Note 15 - Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2025, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 101, Compensated Absences

GASB Statement No. 102, Certain Risk Disclosures

GASB Statement No. 101 updates the recognition, measurement, and disclosure requirements for compensated absences. This Statement supersedes GASB Statement No. 16, *Accounting for Compensated Absences*, which was issued in 1992, and aims to better meet the information needs of financial statement users by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. Lastly, the model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

GASB Statement No. 102 improves financial reporting by providing users of financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.



Required Supplementary Information

North Carolina Department of Health and Human Services
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual (Budgetary Basis-Non-GAAP) General Fund
 For the Fiscal Year Ended June 30, 2025

Exhibit B-1

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal Grants	\$ 26,569,757,755	\$ 29,696,151,169	\$ 28,999,815,197	\$ (696,335,972)
Local Grants	1,158,119,498	1,601,338,558	1,575,875,930	(25,462,628)
Local Match and Program Income	10,157,414	10,157,414	11,194,513	1,037,099
Sales, Services, and Rentals	98,715,666	98,823,486	35,099,709	(63,723,777)
Fees, Licenses, and Fines	3,470,759,718	3,442,197,902	3,384,896,955	(57,300,947)
Contributions and Donations	95,375	531,202	487,727	(43,475)
Miscellaneous Revenues	187,840,417	296,845,365	188,245,453	(108,599,912)
Total Revenues	31,495,445,843	35,146,045,096	34,195,615,484	(950,429,612)
EXPENDITURES				
Salaries and Benefits	1,567,089,076	1,446,975,500	1,269,084,124	177,891,376
Purchased Services	1,123,897,843	1,549,373,567	1,225,431,691	323,941,876
Supplies	102,413,832	101,238,205	63,611,572	37,626,633
Property, Plant, and Equipment	45,780,020	48,853,788	34,571,999	14,281,789
Other Expenditures and Adjustments	28,642,125	53,607,574	56,882,577	(3,275,003)
Aid and Public Assistance	36,236,020,025	39,649,173,496	39,084,012,534	565,160,962
Reserves	210,833,545	52,732,386	10,016	52,722,370
Total Expenditures	39,314,676,466	42,901,954,516	41,733,604,513	1,168,350,003
Excess of Revenues Over (Under) Expenditures	(7,819,230,623)	(7,755,909,420)	(7,537,989,029)	217,920,391
OTHER FINANCING SOURCES (USES)				
State Appropriations	8,147,543,594	8,147,543,594	8,037,198,987	(110,344,607)
Transfers from Other Departments or Funds	3,096,088,636	5,551,292,979	5,320,595,890	(230,697,089)
Transfers to Other Departments or Funds	(3,580,495,539)	(6,027,871,126)	(5,620,976,150)	406,894,976
Total Other Financing Sources	7,663,136,691	7,670,965,447	7,736,818,727	65,853,280
Net Change in Fund Balance	(156,093,932)	(84,943,973)	198,829,698	283,773,671
Fund Balance - Beginning of Year	256,809,849	308,872,277	791,885,341	
Fund Balance - End of Year	\$ 100,715,917	\$ 223,928,304	\$ 990,715,039	\$ 283,773,671

The following tables present a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2025 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2025	\$ 990,715,039
Reconciling Adjustments:	
Basis Differences:	
Receivables	4,773,113,800
Payables	(5,431,697,698)
Deferred Inflows	(43,753,284)
Total Basis Differences	(702,337,182)
Other Adjustments:	
Cash	391,665,074
Inventories	15,145,905
Fund Balance (GAAP Basis) June 30, 2025	\$ 695,188,836

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, 2025**

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.



Supplementary Information

North Carolina Department of Health and Human Services
 Balance Sheet By Division
 Governmental Funds
 June 30, 2025

Exhibit C-1

	Central Administration (1)	Health Benefits (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)	Aging (6)	Blind/Deaf Services (7)	Employment and Independence for People with Disabilities (8)	Social Services (9)	Child and Family (10)	Mental Health (11)	Total Governmental Funds
ASSETS												
Cash and Cash Equivalents	\$ 711,181,009	\$ 357,195,647	\$ 5,283,438	\$ 52,241,422	\$ 56,862,548	\$ 3,177,012	\$ 24,295,933	\$ 1,305,678	\$ 13,781,323	\$ 3,944,647	\$ 280,195,194	\$ 1,509,463,851
Receivables:												
Accounts Receivable, Net	143	243,930,762	3,319,835	1,600,590	6,130,130	85,230	10,995	4,756	902,068		65,907,603	321,892,112
Intergovernmental Receivables	33,816,131	4,099,896,454	41,283,175	3,627,090	19,597,036	32,064,168	517,939	12,776,433	130,536,835	32,540,041	43,419,599	4,450,074,901
Other Receivables											264,942	264,942
Due from Other Funds		1,664,026				574,028		37,581			363	2,275,998
Inventories	146,444	81,249	8,490	7,812	2,041,058	1,944	459	332,589	7,593	378,863	12,431,306	15,437,807
Total Assets	745,143,727	4,702,768,138	49,894,938	57,476,914	84,630,772	35,902,382	24,825,326	14,457,037	145,227,819	36,863,551	402,219,007	6,299,409,611
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets and Deferred Outflows	\$ 745,143,727	\$ 4,702,768,138	\$ 49,894,938	\$ 57,476,914	\$ 84,630,772	\$ 35,902,382	\$ 24,825,326	\$ 14,457,037	\$ 145,227,819	\$ 36,863,551	\$ 402,219,007	\$ 6,299,409,611
LIABILITIES												
Accounts Payable and Accrued Liabilities												
Accounts Payable	\$ 25,775,696	\$ 63,475,548	\$ 45,193,272	\$ 1,790,898	\$ 11,279,688	\$ 939,334	\$ 1,046,625	\$ 12,287,945	\$ 5,132,593	\$ 14,879,155	\$ 56,016,809	\$ 237,817,563
Intergovernmental Payables	398,696,236	157,417,042	15,226,761	77,137	6,987,420	13,420,366	10,407	1,227,995	122,609,964	1,127,659	2,658,486	719,459,473
Medical Claims Payable		4,168,245,692			225,095		53,139	173,279	722,659	153,381	5,389,544	4,174,962,789
Due to Other State Agencies and Funds	5,964,788	1,008,084	436,047	309,022	14,090,620	3,477,959	106,135	557,214	1,741,240	1,387,928	2,223,073	31,302,110
Due to State of North Carolina Component Units		272,889,123	100,028		870,614	18,076		117,024	977,660	746,600	1,012,717	276,731,842
Other Liabilities											6,320	6,320
Total Liabilities	430,436,720	4,663,035,489	60,956,108	2,177,057	33,453,437	17,855,735	1,216,306	14,363,457	131,184,116	18,294,723	67,306,949	5,440,280,097
DEFERRED INFLOWS OF RESOURCES												
Unavailable Revenue	0	0	23,797	1,600,590	5,769,581	0	5,076	0	1,176,161	0	35,178,079	43,753,284
FUND BALANCES												
Nonspendable Inventories	146,444	81,250	8,491	7,812	2,041,059	1,944	458	332,590	7,593	378,863	12,431,306	15,437,810
Restricted for Health and Human Services	1,926,077	102,175,083	11,939,188	42,971,084	18,011,047	868,749	853,587	7,680	15,154,668		1,005,905	194,913,068
Committed to Health and Human Services	338,004,976	252,535,983	283,438	6,377,273	38,528,292	2,362,181	24,723,124		1,980,770	4,170,129	271,480,114	940,446,280
Assigned to Health and Human Services	5,261,359		500,000	2,893,065			3,468				1,985,980	10,643,872
Unassigned	(30,631,849)	(315,059,667)	(23,816,084)	1,450,033	(13,172,644)	14,813,773	(1,976,693)	(246,690)	(4,275,489)	14,019,836	12,830,674	(346,064,800)
Total Fund Balances	314,707,007	39,732,649	(11,084,967)	53,699,267	45,407,754	18,046,647	23,603,944	93,580	12,867,542	18,568,828	299,733,979	815,376,230
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 745,143,727	\$ 4,702,768,138	\$ 49,894,938	\$ 57,476,914	\$ 84,630,772	\$ 35,902,382	\$ 24,825,326	\$ 14,457,037	\$ 145,227,819	\$ 36,863,551	\$ 402,219,007	\$ 6,299,409,611

- (1) See Supplementary Exhibit D-1
- (2) See Supplementary Exhibit E-1
- (3) See Supplementary Exhibit F-1
- (4) See Supplementary Exhibit G-1
- (5) See Supplementary Exhibit H-1
- (6) See Supplementary Exhibit I-1
- (7) See Supplementary Exhibit J-1
- (8) See Supplementary Exhibit K-1
- (9) See Supplementary Exhibit L-1
- (10) See Supplementary Exhibit M-1
- (11) See Supplementary Exhibit N-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, 2025

Exhibit C-2

	Central Administration (1)	Health Benefits (2)	Child Development (3)	Health Service Regulation (4)	Public Health (5)	Aging (6)	Blind/Deaf Services (7)	Employment and Independence for People with Disabilities (8)	Social Services (9)	Child and Family (10)	Mental Health (11)	Total Governmental Funds
REVENUES												
Federal Funds	\$ 160,722,659	\$ 25,195,953,430	\$ 501,823,660	\$ 15,754,100	\$ 166,025,097	\$ 37,460,887	\$ 18,339,431	\$ 225,641,318	\$ 4,261,174,707	\$ 530,471,474	\$ 627,489,333	\$ 31,740,856,096
Federal COVID-19 Funds	3,725,389	4,028,992	69,807,437	19,442,220	70,607,083	31,157,531		3,258	5,044,948	(2,173,597)	53,906,574	255,549,835
Local Funds	422,476	12,464		671,751		10,168,263	603,699	2,599,180	111,985,560		2,780,534	129,243,927
Sales and Services				405,131	951,805		691,079			85,046	1,075,169	3,422,373
Net Patient Service Revenue											33,181,090	33,181,090
Fees, Licenses, and Fines	56,331	821,526,780	2,166,775	23,737,265	26,444,547	15,590	3,409,019		379,731		669,971	878,406,009
Contributions, Gifts and Grants	8,694,021	400,529			3,015,524	6,000	20,369		115	713,141	2,122,515	14,972,214
Revenues from Other State Agencies	67,700,013	60,542,170	130,016,131	335,911	45,077,017	4,245,450	18,396,340		15,086,042	9,262,897	10,943,654	361,705,625
Miscellaneous Revenues	2,985,124	3,607,847	366,991	112,405	15,118,906	666	1,044,477	3,521,092	15,076,896	41,770,917	6,911,356	90,516,677
Total Revenues	244,306,013	26,086,172,212	704,180,994	60,458,783	327,239,979	83,054,387	42,504,414	231,978,991	4,408,747,999	580,129,878	739,080,196	33,507,853,846
EXPENDITURES												
Salaries and Benefits	115,846,366	49,177,464	30,932,524	53,897,519	111,302,798	7,686,941	22,198,630	117,285,051	28,741,399	70,255,048	715,279,973	1,322,603,713
Contracted Personal Services	206,460,653	505,465,473	11,284,846	3,903,334	87,931,753	3,276,478	3,813,821	25,751,389	24,472,724	61,776,559	136,225,425	1,070,362,455
Supplies and Materials	4,272,710	166,567	146,873	588,213	14,336,370	16,649	104,298	1,078,390	266,375	774,310	41,655,365	63,406,120
Travel	625,498	361,895	616,307	1,770,344	1,977,818	149,245	567,310	1,010,206	1,531,266	981,995	499,851	10,091,735
Communication	3,795,363	443,743	515,544	651,535	1,281,302	92,234	541,095	2,070,651	1,109,944	1,376,829	2,055,274	13,933,514
Utilities	4,282,444			6,973	59,426		31,674	482,930		188,562	15,072,868	20,124,877
Data Processing Services	7,971,521	513,676	82,947		1,158,121			2,264	715,174	571,230	2,522,025	13,536,958
Other Services	5,418,667	611,964	106,479	172,404	17,546,148	110,474	338,775	778,521	11,259,256	325,609	7,386,841	44,055,138
Lease/Subscription Expenditures:												
Principal Payments	19,597,042		595,580	102,941	3,296,260		687,055	6,079,826	197,172	3,090,751	852,917	34,499,544
Interest and Fees	2,190,570		165,140	120,727	191,440		338,570	1,975,929	51,417	1,153,769	68,593	6,256,155
Other Fixed Charges	39,220,272	6,119,714	2,272,571	24,492	5,258,228	64,240	330,590	287,670	728,870	448,943	9,670,682	64,424,272
Capital Outlay	67,090,808	560,353	303,453	1,487,885	14,206,731	4,513	1,053,017	823,305	412,920	748,137	9,601,056	96,292,178
Grants, State Aid, and Subsidies	90,183,366	30,186,795,020	955,554,112	5,479,726	168,979,645	121,274,688	8,062,669	111,084,860	4,601,575,620	510,684,758	673,074,066	37,432,748,530
Expenditures to Other State Agencies	773,434	630,026,973		3,503,243	384,410	1,974,081					300,000	636,962,141
Other Expenditures	509,957	359,694	7,948,086	1,038,014	1,286,632	140,889	426,495	850,688	320,160	882,749	27,363,656	41,127,020
Total Expenditures	568,238,671	31,380,602,536	1,010,524,462	72,747,350	429,197,082	134,790,432	38,493,999	269,561,680	4,671,380,297	653,259,249	1,641,628,592	40,870,424,350
Excess of Revenues Over (Under) Expenditures	(323,932,658)	(5,294,430,324)	(306,343,468)	(12,288,567)	(101,957,103)	(51,736,045)	4,010,415	(37,582,689)	(262,632,298)	(73,129,371)	(902,548,396)	(7,362,570,504)
OTHER FINANCING SOURCES (USES)												
State Appropriations	223,086,617	6,164,955,604	321,778,605	22,879,092	115,458,807	52,866,573	5,686,948	42,292,928	228,382,843	60,398,778	799,412,192	8,037,198,987
Transfers In	299,632,840	3,885,107,125	32,853,032	3,143,625	60,471,640	6,636,514	13,020,441	5,545,107	46,259,541	46,388,025	589,588,854	4,988,646,744
Transfers Out	(152,301,184)	(4,278,521,021)	(38,172,932)	(5,361,136)	(53,392,455)	(5,920,000)	(13,068,727)	(9,157,681)	(35,496,090)	(4,036,481)	(393,219,037)	(4,988,646,744)
Transfers from State Reserve Fund	7,426,161	272,551,232	564,451	685,354	4,787,766	305,792			31,639,030	5,874,896	26,574,322	350,409,004
Transfers to State Reserve Fund		(165,850,001)	(19,085,556)	(1,887,891)	(1,493,200)	(325,008)		(95,597)	(17,160,481)	(13,554,928)	(23,648,262)	(243,100,924)
Leases/Subscriptions Issued	23,831,156										932,588	24,763,744
Other	75				6,021	65	54,990	3,541			112,334	177,026
Total Other Financing Sources	401,675,665	5,878,242,939	297,937,600	19,459,044	125,838,579	53,563,936	5,693,652	38,588,298	253,624,843	95,070,290	999,752,991	8,169,447,837
Net Change in Fund Balances	77,743,007	583,812,615	(8,405,868)	7,170,477	23,881,476	1,827,891	9,704,067	1,005,609	(9,007,455)	21,940,919	97,204,595	806,877,333
Fund Balances - Beginning of Year	236,964,000	(544,079,966)	(2,679,099)	46,528,790	21,526,278	16,218,756	13,899,877	(912,029)	21,874,997	(3,372,091)	202,529,384	8,498,897
Fund Balances - End of Year	\$ 314,707,007	\$ 39,732,649	\$ (11,084,967)	\$ 53,699,267	\$ 45,407,754	\$ 18,046,647	\$ 23,603,944	\$ 93,580	\$ 12,867,542	\$ 18,568,828	\$ 299,733,979	\$ 815,376,230

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

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Central Administration
June 30, 2025**

Exhibit D-1

	General Fund	Capital Projects Fund	Total Central Administration
ASSETS			
Cash and Cash Equivalents	\$ 680,394,331	\$ 30,786,678	\$ 711,181,009
Receivables:			
Accounts Receivable, Net	143		143
Intergovernmental Receivables	33,816,131		33,816,131
Inventories	146,444		146,444
Total Assets	714,357,049	30,786,678	745,143,727
DEFERRED OUTFLOWS OF RESOURCES			
Total Assets and Deferred Outflows	0	0	0
	\$ 714,357,049	\$ 30,786,678	\$ 745,143,727
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 24,849,502	\$ 926,194	\$ 25,775,696
Intergovernmental Payables	398,696,236		398,696,236
Due to Other State Agencies and Funds	5,178,972	785,816	5,964,788
Total Liabilities	428,724,710	1,712,010	430,436,720
DEFERRED INFLOWS OF RESOURCES			
	0	0	0
FUND BALANCES			
Nonspendable Inventories	146,444		146,444
Restricted for Health and Human Services	1,926,077		1,926,077
Committed to Health and Human Services	308,705,469	29,299,507	338,004,976
Assigned to Health and Human Services	5,261,359		5,261,359
Unassigned	(30,407,010)	(224,839)	(30,631,849)
Total Fund Balances	285,632,339	29,074,668	314,707,007
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 714,357,049	\$ 30,786,678	\$ 745,143,727

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, 2025

Exhibit D-2

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Central Administration</u>
REVENUES			
Federal Funds	\$ 160,722,659	\$ 0	\$ 160,722,659
Federal COVID-19 Funds	3,725,389		3,725,389
Local Funds	422,476		422,476
Fees, Licenses, and Fines	56,331		56,331
Contributions, Gifts and Grants	8,694,021		8,694,021
Revenues from Other State Agencies	27,858,304	39,841,709	67,700,013
Miscellaneous Revenues	2,985,124		2,985,124
	<u>204,464,304</u>	<u>39,841,709</u>	<u>244,306,013</u>
EXPENDITURES			
Salaries and Benefits	115,846,366		115,846,366
Contracted Personal Services	206,460,653		206,460,653
Supplies and Materials	4,272,710		4,272,710
Travel	625,498		625,498
Communication	3,795,363		3,795,363
Utilities	4,282,444		4,282,444
Data Processing Services	7,971,521		7,971,521
Other Services	5,418,667		5,418,667
Lease/Subscription Expenditures:			
Principal Payments	19,597,042		19,597,042
Interest and Fees	2,190,570		2,190,570
Other Fixed Charges	39,220,272		39,220,272
Capital Outlay	31,681,623	35,409,185	67,090,808
Grants, State Aid, and Subsidies	90,183,366		90,183,366
Expenditures to Other State Agencies	773,434		773,434
Other Expenditures	509,957		509,957
	<u>532,829,486</u>	<u>35,409,185</u>	<u>568,238,671</u>
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	<u>(328,365,182)</u>	<u>4,432,524</u>	<u>(323,932,658)</u>
OTHER FINANCING SOURCES (USES)			
State Appropriations	223,086,617		223,086,617
Transfers In	299,632,840		299,632,840
Transfers Out	(152,301,184)		(152,301,184)
Transfers from State Reserve Fund	7,426,161		7,426,161
Leases/Subscriptions Issued	23,831,156		23,831,156
Other	75		75
	<u>401,675,665</u>		<u>401,675,665</u>
Total Other Financing Sources			
Net Change in Fund Balances	73,310,483	4,432,524	77,743,007
Fund Balances - Beginning of Year	<u>212,321,856</u>	<u>24,642,144</u>	<u>236,964,000</u>
Fund Balances - End of Year	<u>\$ 285,632,339</u>	<u>\$ 29,074,668</u>	<u>\$ 314,707,007</u>

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Health Benefits
June 30, 2025**

Exhibit E-1

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 357,195,647
Receivables:	
Accounts Receivable, Net	243,930,762
Intergovernmental Receivables	4,099,896,454
Due from Other Funds	1,664,026
Inventories	81,249
	<hr/>
Total Assets	4,702,768,138
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
	0
	<hr/>
Total Assets and Deferred Outflows	\$ 4,702,768,138
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 63,475,548
Intergovernmental Payables	157,417,042
Medical Claims Payable	4,168,245,692
Due to Other State Agencies and Funds	1,008,084
Due to State of North Carolina Component Units	272,889,123
	<hr/>
Total Liabilities	4,663,035,489
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
	0
	<hr/>
FUND BALANCE	
Nonspendable Inventories	81,250
Restricted for Health and Human Services	102,175,083
Committed to Health and Human Services	252,535,983
Unassigned	(315,059,667)
	<hr/>
Total Fund Balance	39,732,649
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 4,702,768,138
	<hr/> <hr/>

**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, 2025**

Exhibit E-2

	<u>General Fund</u>
REVENUES	
Federal Funds	\$ 25,195,953,430
Federal COVID-19 Funds	4,028,992
Local Funds	12,464
Fees, Licenses, and Fines	821,526,780
Contributions, Gifts and Grants	400,529
Revenues from Other State Agencies	60,642,170
Miscellaneous Revenues	3,607,847
	<hr/>
Total Revenues	26,086,172,212
EXPENDITURES	
Salaries and Benefits	49,177,464
Contracted Personal Services	505,465,473
Supplies and Materials	166,567
Travel	361,895
Communication	443,743
Data Processing Services	513,676
Other Services	611,964
Other Fixed Charges	6,119,714
Capital Outlay	560,353
Grants, State Aid, and Subsidies (Exhibit O-2)	30,186,795,020
Expenditures to Other State Agencies	630,026,973
Other Expenditures	359,694
	<hr/>
Total Expenditures	31,380,602,536
	<hr/>
Excess of Revenues Under Expenditures	(5,294,430,324)
OTHER FINANCING SOURCES (USES)	
State Appropriations	6,164,955,604
Transfers In	3,885,107,125
Transfers Out	(4,278,521,021)
Transfers from State Reserve Fund	272,551,232
Transfers to State Reserve Fund	(165,850,001)
	<hr/>
Total Other Financing Sources	5,878,242,939
	<hr/>
Net Change in Fund Balance	583,812,615
Fund Balance - Beginning of Year	(544,079,966)
	<hr/>
Fund Balance - End of Year	\$ 39,732,649
	<hr/> <hr/>

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Child Development and Early Education
June 30, 2025**

Exhibit F-1

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 5,283,438
Receivables:	
Accounts Receivable, Net	3,319,835
Intergovernmental Receivables	41,283,175
Inventories	<u>8,490</u>
Total Assets	<u>49,894,938</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Assets and Deferred Outflows	<u>0</u>
Total Assets and Deferred Outflows	<u>\$ 49,894,938</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 45,193,272
Intergovernmental Payables	15,226,761
Due to Other State Agencies and Funds	436,047
Due to State of North Carolina Component Units	<u>100,028</u>
Total Liabilities	<u>60,956,108</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	<u>23,797</u>
FUND BALANCES	
Nonspendable Inventories	8,491
Restricted for Health and Human Services	11,939,188
Committed to Health and Human Services	283,438
Assigned to Health and Human Services	500,000
Unassigned	<u>(23,816,084)</u>
Total Fund Balance	<u>(11,084,967)</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 49,894,938</u>

**North Carolina Department of Health and Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Division of Child Development and Early Education
For the Fiscal Year Ended June 30, 2025**

Exhibit F-2

	<u>General Fund</u>
REVENUES	
Federal Funds	\$ 501,823,660
Federal COVID-19 Funds	69,807,437
Fees, Licenses, and Fines	2,166,775
Revenues from Other State Agencies	130,016,131
Miscellaneous Revenues	366,991
	<hr/>
Total Revenues	704,180,994
EXPENDITURES	
Salaries and Benefits	30,932,524
Contracted Personal Services	11,284,846
Supplies and Materials	146,873
Travel	616,307
Communication	515,544
Data Processing Services	82,947
Other Services	106,479
Lease/Subscription Expenditures:	
Principal Payments	595,580
Interest and Fees	165,140
Other Fixed Charges	2,272,571
Capital Outlay	303,453
Grants, State Aid, and Subsidies (Exhibit O-3)	955,554,112
Other Expenditures	7,948,086
	<hr/>
Total Expenditures	1,010,524,462
	<hr/>
Excess of Revenues Under Expenditures	(306,343,468)
OTHER FINANCING SOURCES (USES)	
State Appropriations	321,778,605
Transfers In	32,853,032
Transfers Out	(38,172,932)
Transfers from State Reserve Fund	564,451
Transfers to State Reserve Fund	(19,085,556)
	<hr/>
Total Other Financing Sources	297,937,600
	<hr/>
Net Change in Fund Balance	(8,405,868)
Fund Balance - Beginning of Year	(2,679,099)
	<hr/>
Fund Balance - End of Year	\$ (11,084,967)
	<hr/> <hr/>

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Health Service Regulation
June 30, 2025**

Exhibit G-1

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 52,241,422
Receivables:	
Accounts Receivable, Net	1,600,590
Intergovernmental Receivables	3,627,090
Inventories	7,812
	<hr/>
Total Assets	57,476,914
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
	0
	<hr/>
Total Assets and Deferred Outflows	\$ 57,476,914
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 1,790,898
Intergovernmental Payables	77,137
Due to Other State Agencies and Funds	309,022
	<hr/>
Total Liabilities	2,177,057
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	1,600,590
	<hr/>
FUND BALANCE	
Nonspendable Inventories	7,812
Restricted for Health and Human Services	42,971,084
Committed to Health and Human Services	6,377,273
Assigned to Health and Human Services	2,893,065
Unassigned	1,450,033
	<hr/>
Total Fund Balance	53,699,267
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 57,476,914
	<hr/> <hr/>

**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, 2025**

Exhibit G-2

	<u>General Fund</u>
REVENUES	
Federal Funds	\$ 15,754,100
Federal COVID-19 Funds	19,442,220
Local Funds	671,751
Sales and Services	405,131
Fees, Licenses, and Fines	23,737,265
Revenues from Other State Agencies	335,911
Miscellaneous Revenues	112,405
	<hr/>
Total Revenues	60,458,783
	<hr/>
EXPENDITURES	
Salaries and Benefits	53,897,519
Contracted Personal Services	3,903,334
Supplies and Materials	588,213
Travel	1,770,344
Communication	651,535
Utilities	6,973
Other Services	172,404
Lease/Subscription Expenditures:	
Principal Payments	102,941
Interest and Fees	120,727
Other Fixed Charges	24,492
Capital Outlay	1,487,885
Grants, State Aid, and Subsidies	5,479,726
Expenditures to Other State Agencies	3,503,243
Other Expenditures	1,038,014
	<hr/>
Total Expenditures	72,747,350
	<hr/>
Excess of Revenues Under Expenditures	(12,288,567)
	<hr/>
OTHER FINANCING SOURCES (USES)	
State Appropriations	22,879,092
Transfers In	3,143,625
Transfers Out	(5,361,136)
Transfers from State Reserve Fund	685,354
Transfers to State Reserve Fund	(1,887,891)
	<hr/>
Total Other Financing Sources	19,459,044
	<hr/>
Net Change in Fund Balance	7,170,477
	<hr/>
Fund Balance - Beginning of Year	46,528,790
	<hr/>
Fund Balance - End of Year	\$ 53,699,267
	<hr/> <hr/>

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Public Health
June 30, 2025

Exhibit H-1

	<u>General Fund</u>	<u>Other Special Revenue Fund</u>	<u>Total Public Health</u>
ASSETS			
Cash and Cash Equivalents	\$ 53,162,232	\$ 3,700,316	\$ 56,862,548
Receivables:			
Accounts Receivable, Net	6,130,130		6,130,130
Intergovernmental Receivables	19,597,036		19,597,036
Inventories	2,041,058		2,041,058
	<u>80,930,456</u>	<u>3,700,316</u>	<u>84,630,772</u>
Total Assets	<u>80,930,456</u>	<u>3,700,316</u>	<u>84,630,772</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows	<u>\$ 80,930,456</u>	<u>\$ 3,700,316</u>	<u>\$ 84,630,772</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 11,278,558	\$ 1,130	\$ 11,279,688
Intergovernmental Payables	6,987,420		6,987,420
Medical Claims Payable	225,095		225,095
Due to Other State Agencies and Funds	14,090,620		14,090,620
Due to State of North Carolina Component Units	870,614		870,614
	<u>33,452,307</u>	<u>1,130</u>	<u>33,453,437</u>
Total Liabilities	<u>33,452,307</u>	<u>1,130</u>	<u>33,453,437</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	<u>5,769,581</u>	<u>0</u>	<u>5,769,581</u>
FUND BALANCES			
Nonspendable Inventories	2,041,059		2,041,059
Restricted for Health and Human Services	18,011,047		18,011,047
Committed to Health and Human Services	34,829,106	3,699,186	38,528,292
Unassigned	(13,172,644)		(13,172,644)
	<u>41,708,568</u>	<u>3,699,186</u>	<u>45,407,754</u>
Total Fund Balances	<u>41,708,568</u>	<u>3,699,186</u>	<u>45,407,754</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 80,930,456</u>	<u>\$ 3,700,316</u>	<u>\$ 84,630,772</u>

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, 2025

Exhibit H-2

	General Fund	Other Special Revenue Fund	Total Public Health
REVENUES			
Federal Funds	\$ 166,025,097	\$ 0	\$ 166,025,097
Federal COVID-19 Funds	70,607,083		70,607,083
Sales and Services	951,805		951,805
Fees, Licenses, and Fines	25,836,790	607,757	26,444,547
Contributions, Gifts and Grants	3,015,524		3,015,524
Revenues from Other State Agencies	45,077,017		45,077,017
Miscellaneous Revenues:	15,118,906		15,118,906
	<hr/>	<hr/>	<hr/>
Total Revenues	326,632,222	607,757	327,239,979
EXPENDITURES			
Salaries and Benefits	111,141,391	161,407	111,302,798
Contracted Personal Services	87,931,039	714	87,931,753
Supplies and Materials	14,332,199	4,171	14,336,370
Travel	1,952,442	25,376	1,977,818
Communication	1,278,961	2,341	1,281,302
Utilities	59,426		59,426
Data Processing Services	1,158,121		1,158,121
Other Services	17,538,954	7,194	17,546,148
Lease/Subscription Expenditures:			
Principal Payments	3,296,260		3,296,260
Interest and Fees	191,440		191,440
Other Fixed Charges	5,256,785	1,443	5,258,228
Capital Outlay	14,203,809	2,922	14,206,731
Grants, State Aid, and Subsidies (Exhibit O-4)	168,979,645		168,979,645
Expenditures to Other State Agencies	384,410		384,410
Other Expenditures	1,285,697	935	1,286,632
	<hr/>	<hr/>	<hr/>
Total Expenditures	428,990,579	206,503	429,197,082
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	(102,358,357)	401,254	(101,957,103)
OTHER FINANCING SOURCES (USES)			
State Appropriations	115,458,807		115,458,807
Transfers In	60,471,640		60,471,640
Transfers Out	(53,392,455)		(53,392,455)
Transfers from State Reserve Fund	4,787,766		4,787,766
Transfers to State Reserve Fund	(1,493,200)		(1,493,200)
Other	6,021		6,021
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources	125,838,579	0	125,838,579
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	23,480,222	401,254	23,881,476
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning of Year	18,228,346	3,297,932	21,526,278
	<hr/>	<hr/>	<hr/>
Fund Balances - End of Year	\$ 41,708,568	\$ 3,699,186	\$ 45,407,754
	<hr/>	<hr/>	<hr/>

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Aging and Adult Services
June 30, 2025**

Exhibit I-1

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,177,012
Receivables:	
Accounts Receivable, Net	85,230
Intergovernmental Receivables	32,064,168
Due from Other Funds	574,028
Inventories	1,944
	<hr/>
Total Assets	35,902,382
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
	0
	<hr/>
Total Assets and Deferred Outflows	\$ 35,902,382
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 939,334
Intergovernmental Payables	13,420,366
Due to Other State Agencies and Funds	3,477,959
Due to State of North Carolina Component Units	18,076
	<hr/>
Total Liabilities	17,855,735
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
	0
	<hr/>
FUND BALANCE	
Nonspendable Inventories	1,944
Restricted for Health and Human Services	868,749
Committed to Health and Human Services	2,362,181
Unassigned	14,813,773
	<hr/>
Total Fund Balance	18,046,647
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 35,902,382
	<hr/> <hr/>

**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, 2025**

Exhibit I-2

	<u>General Fund</u>
REVENUES	
Federal Funds	\$ 37,460,887
Federal COVID-19 Funds	31,157,531
Local Funds	10,168,263
Fees, Licenses, and Fines	15,590
Contributions, Gifts and Grants	6,000
Revenues from Other State Agencies	4,245,450
Miscellaneous Revenues	666
	<hr/>
Total Revenues	83,054,387
	<hr/>
EXPENDITURES	
Salaries and Benefits	7,686,941
Contracted Personal Services	3,276,478
Supplies and Materials	16,649
Travel	149,245
Communication	92,234
Other Services	110,474
Other Fixed Charges	64,240
Capital Outlay	4,513
Grants, State Aid, and Subsidies	121,274,688
Expenditures to Other State Agencies	1,974,081
Other Expenditures	140,889
	<hr/>
Total Expenditures	134,790,432
	<hr/>
Excess of Revenues Under Expenditures	(51,736,045)
	<hr/>
OTHER FINANCING SOURCES (USES)	
State Appropriations	52,866,573
Transfers In	6,636,514
Transfers Out	(5,920,000)
Transfers from State Reserve Fund	305,792
Transfers to State Reserve Fund	(325,008)
Other	65
	<hr/>
Total Other Financing Sources	53,563,936
	<hr/>
Net Change in Fund Balance	1,827,891
Fund Balance - Beginning of Year	16,218,756
	<hr/>
Fund Balance - End of Year	\$ 18,046,647
	<hr/> <hr/>

**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, 2025**

Exhibit J-1

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services
ASSETS				
Cash and Cash Equivalents	\$ 0	\$ 2,224,161	\$ 22,071,772	\$ 24,295,933
Receivables:				
Accounts Receivable, Net	5,076	3,679	2,240	10,995
Intergovernmental Receivables	517,939			517,939
Inventories	459			459
Total Assets	523,474	2,227,840	22,074,012	24,825,326
DEFERRED OUTFLOWS OF RESOURCES				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 523,474	\$ 2,227,840	\$ 22,074,012	\$ 24,825,326
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 863,996	\$ 182,629	\$ 0	\$ 1,046,625
Intergovernmental Payables	10,407			10,407
Medical Claims Payable	53,139			53,139
Due to Other State Agencies and Funds	106,135			106,135
Total Liabilities	1,033,677	182,629	0	1,216,306
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	5,076	0	0	5,076
FUND BALANCES				
Nonspendable Inventories	458			458
Restricted for Health and Human Services	417,305	436,282		853,587
Committed to Health and Human Services		2,649,112	22,074,012	24,723,124
Assigned to Health and Human Services		3,468		3,468
Unassigned	(933,042)	(1,043,651)		(1,976,693)
Total Fund Balances	(515,279)	2,045,211	22,074,012	23,603,944
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 523,474	\$ 2,227,840	\$ 22,074,012	\$ 24,825,326

**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, 2025**

Exhibit J-2

	General Fund	Other Special Revenue Fund	N.C. Dual Party Relay System Fund	Total Blind/Deaf Services
REVENUES				
Federal Funds	\$ 17,617,863	\$ 721,568	\$ 0	\$ 18,339,431
Local Funds	603,699			603,699
Sales and Services		691,079		691,079
Fees, Licenses, and Fines			3,409,019	3,409,019
Contributions, Gifts and Grants		20,369		20,369
Revenues from Other State Agencies			18,396,340	18,396,340
Miscellaneous Revenues	316,654	383	727,440	1,044,477
Total Revenues	18,538,216	1,433,399	22,532,799	42,504,414
EXPENDITURES				
Salaries and Benefits	22,178,630	20,000		22,198,630
Contracted Personal Services	3,813,821			3,813,821
Supplies and Materials	93,632	10,666		104,298
Travel	552,004	15,306		567,310
Communication	541,095			541,095
Utilities	31,674			31,674
Other Services	73,221	265,554		338,775
Lease/Subscription Expenditures:				
Principal Payments	687,055			687,055
Interest and Fees	338,570			338,570
Other Fixed Charges	323,590	7,000		330,590
Capital Outlay	457,740	595,277		1,053,017
Grants, State Aid, and Subsidies	7,797,669	265,000		8,062,669
Other Expenditures	426,495			426,495
Total Expenditures	37,315,196	1,178,803	0	38,493,999
Excess of Revenues Over (Under) Expenditures	(18,776,980)	254,596	22,532,799	4,010,415
OTHER FINANCING SOURCES (USES)				
State Appropriations	5,686,948			5,686,948
Transfers In	12,917,482	102,959		13,020,441
Transfers Out	(350,000)	(343,642)	(12,375,085)	(13,068,727)
Other		54,990		54,990
Total Other Financing Sources (Uses)	18,254,430	(185,693)	(12,375,085)	5,693,652
Net Change in Fund Balances	(522,550)	68,903	10,157,714	9,704,067
Fund Balances - Beginning of Year	7,271	1,976,308	11,916,298	13,899,877
Fund Balances - End of Year	\$ (515,279)	\$ 2,045,211	\$ 22,074,012	\$ 23,603,944

North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Employment and Independence for People
with Disabilities
June 30, 2025

Exhibit K-1

	General Fund	Disability Determination Fund	Total Employment and Independence for People with Disabilities
ASSETS			
Cash and Cash Equivalents	\$ 7,680	\$ 1,297,998	\$ 1,305,678
Receivables:			
Accounts Receivable, Net	4,756		4,756
Intergovernmental Receivables	11,657,947	1,118,486	12,776,433
Due from Other Funds	37,581		37,581
Inventories	83,037	249,552	332,589
	<u>11,791,001</u>	<u>2,666,036</u>	<u>14,457,037</u>
Total Assets			
	<u>11,791,001</u>	<u>2,666,036</u>	<u>14,457,037</u>
DEFERRED OUTFLOWS OF RESOURCES			
	0	0	0
Total Assets and Deferred Outflows	<u>\$ 11,791,001</u>	<u>\$ 2,666,036</u>	<u>\$ 14,457,037</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	\$ 11,074,183	\$ 1,213,762	\$ 12,287,945
Intergovernmental Payables	788,130	439,865	1,227,995
Medical Claims Payable	173,279		173,279
Due to Other State Agencies and Funds	557,214		557,214
Due to Component Units	117,024		117,024
	<u>12,709,830</u>	<u>1,653,627</u>	<u>14,363,457</u>
Total Liabilities			
	<u>12,709,830</u>	<u>1,653,627</u>	<u>14,363,457</u>
DEFERRED INFLOWS OF RESOURCES			
	0	0	0
FUND BALANCES			
Nonspendable Inventories	83,038	249,552	332,590
Restricted for Health and Human Services	7,680		7,680
Unassigned	(1,009,547)	762,857	(246,690)
	<u>(918,829)</u>	<u>1,012,409</u>	<u>93,580</u>
Total Fund Balances			
	<u>(918,829)</u>	<u>1,012,409</u>	<u>93,580</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 11,791,001</u>	<u>\$ 2,666,036</u>	<u>\$ 14,457,037</u>

North Carolina Department of Health and Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Division of Employment and Independence for People
with Disabilities
For the Fiscal Year Ended June 30, 2025

Exhibit K-2

	General Fund	Disability Determination Fund	Total Employment and Independence for People with Disabilities
REVENUES			
Federal Funds	\$ 149,984,216	\$ 75,657,102	\$ 225,641,318
Federal COVID-19 Funds	3,258		3,258
Local Funds	2,599,180		2,599,180
Sales and Services	214,143		214,143
Miscellaneous Revenues	3,518,645	2,447	3,521,092
Total Revenues	<u>156,319,442</u>	<u>75,659,549</u>	<u>231,978,991</u>
EXPENDITURES			
Salaries and Benefits	64,282,453	53,002,598	117,285,051
Contracted Personal Services	5,235,948	20,515,441	25,751,389
Supplies and Materials	1,040,098	38,292	1,078,390
Travel	991,053	19,153	1,010,206
Communication	1,731,012	339,639	2,070,651
Utilities	482,930		482,930
Data Processing Services		2,264	2,264
Other Services	408,431	370,090	778,521
Lease/Subscription Expenditures:			
Principal Payments	3,950,144	2,129,682	6,079,826
Interest and Fees	1,572,952	402,977	1,975,929
Other Fixed Charges	184,822	102,848	287,670
Capital Outlay	759,212	64,093	823,305
Grants, State Aid, and Subsidies	110,958,188	126,672	111,084,860
Other Expenditures	605,013	245,675	850,688
Total Expenditures	<u>192,202,256</u>	<u>77,359,424</u>	<u>269,561,680</u>
Excess of Revenues Under Expenditures	<u>(35,882,814)</u>	<u>(1,699,875)</u>	<u>(37,582,689)</u>
OTHER FINANCING SOURCES (USES)			
State Appropriations	42,292,928		42,292,928
Transfers In	2,853,224	2,691,883	5,545,107
Transfers Out	(9,157,681)		(9,157,681)
Transfers to State Reserve Fund	(95,597)		(95,597)
Other	3,235	306	3,541
Total Other Financing Sources	<u>35,896,109</u>	<u>2,692,189</u>	<u>38,588,298</u>
Net Change in Fund Balances	13,295	992,314	1,005,609
Fund Balances - Beginning of Year	<u>(932,124)</u>	<u>20,095</u>	<u>(912,029)</u>
Fund Balances - End of Year	<u>\$ (918,829)</u>	<u>\$ 1,012,409</u>	<u>\$ 93,580</u>

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Social Services
June 30, 2025**

Exhibit L-1

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 13,781,323
Receivables:	
Accounts Receivable, Net	902,068
Intergovernmental Receivables	130,536,835
Inventories	7,593
	<hr/>
Total Assets	145,227,819
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
	0
	<hr/>
Total Assets and Deferred Outflows	\$ 145,227,819
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 5,132,593
Intergovernmental Payables	122,609,964
Medical Claims Payable	722,659
Due to Other State Agencies and Funds	1,741,240
Due to State of North Carolina Component Units	977,660
	<hr/>
Total Liabilities	131,184,116
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	1,176,161
	<hr/>
FUND BALANCE	
Nonspendable Inventories	7,593
Restricted for Health and Human Services	15,154,668
Committed to Health and Human Services	1,980,770
Unassigned	(4,275,489)
	<hr/>
Total Fund Balance	12,867,542
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 145,227,819
	<hr/> <hr/>

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, 2025

Exhibit L-2

	<u>General Fund</u>
REVENUES	
Federal Funds	\$ 4,261,174,707
Federal COVID-19 Funds	5,044,948
Local Funds	111,985,560
Fees, Licenses, and Fines	379,731
Contributions, Gifts and Grants	115
Revenues from Other State Agencies	15,086,042
Miscellaneous Revenues	15,076,896
	<hr/>
Total Revenues	4,408,747,999
EXPENDITURES	
Salaries and Benefits	28,741,399
Contracted Personal Services	24,472,724
Supplies and Materials	266,375
Travel	1,531,266
Communication	1,109,944
Data Processing Services	715,174
Other Services	11,259,256
Lease/Subscription Expenditures:	
Principal Payments	197,172
Interest and Fees	51,417
Other Fixed Charges	726,870
Capital Outlay	412,920
Grants, State Aid, and Subsidies (Exhibit O-5)	4,601,575,620
Other Expenditures	320,160
	<hr/>
Total Expenditures	4,671,380,297
	<hr/>
Excess of Revenues Under Expenditures	(262,632,298)
OTHER FINANCING SOURCES (USES)	
State Appropriations	228,382,843
Transfers In	46,259,541
Transfers Out	(35,496,090)
Transfers from State Reserve Fund	31,639,030
Transfers to State Reserve Fund	(17,160,481)
	<hr/>
Total Other Financing Sources	253,624,843
	<hr/>
Net Change in Fund Balance	(9,007,455)
Fund Balance - Beginning of Year	21,874,997
	<hr/>
Fund Balance - End of Year	\$ 12,867,542
	<hr/> <hr/>

**North Carolina Department of Health and Human Services
 Balance Sheet - Governmental Funds
 Division of Child and Family Well-Being
 June 30, 2025**

Exhibit M-1

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,944,647
Intergovernmental Receivables	32,540,041
Inventories	378,863
	<hr/>
Total Assets	36,863,551
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
	0
	<hr/>
Total Assets and Deferred Outflows	\$ 36,863,551
	<hr/> <hr/>
LIABILITIES	
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 14,879,155
Intergovernmental Payables	1,127,659
Medical Claims Payable	153,381
Due to Other State Agencies and Funds	1,387,928
Due to State of North Carolina Component Units	746,600
	<hr/>
Total Liabilities	18,294,723
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
	0
	<hr/>
FUND BALANCE	
Nonspendable Inventories	378,863
Committed to Health and Human Services	4,170,129
Unassigned	14,019,836
	<hr/>
Total Fund Balance	18,568,828
	<hr/>
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 36,863,551
	<hr/> <hr/>

**North Carolina Department of Health and Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Division of Child and Family Well-Being
For the Fiscal Year Ended June 30, 2025**

Exhibit M-2

	<u>General Fund</u>
REVENUES	
Federal Funds	\$ 530,471,474
Federal COVID-19 Funds ¹	(2,173,597)
Sales and Services	85,046
Contributions, Gifts, and Grants	713,141
Revenues from Other State Agencies	9,262,897
Miscellaneous Revenues	<u>41,770,917</u>
Total Revenues	<u>580,129,878</u>
EXPENDITURES	
Salaries and Benefits	70,255,048
Contracted Personal Services	61,776,559
Supplies and Materials	774,310
Travel	981,995
Communication	1,376,829
Utilities	188,562
Data Processing Services	571,230
Other Services	325,609
Lease/Subscription Expenditures:	
Principal Payments	3,090,751
Interest and Fees	1,153,769
Other Fixed Charges	448,943
Capital Outlay	748,137
Grants, State Aid, and Subsidies (Exhibit O-6)	510,684,758
Other Expenditures	<u>882,749</u>
Total Expenditures	<u>653,259,249</u>
Excess of Revenues Under Expenditures	<u>(73,129,371)</u>
OTHER FINANCING SOURCES (USES)	
State Appropriations	60,398,778
Transfers In	46,388,025
Transfers Out	(4,036,481)
Transfers from State Reserve Fund	5,874,896
Transfers to State Reserve Fund	<u>(13,554,928)</u>
Total Other Financing Sources	<u>95,070,290</u>
Net Change in Fund Balance	21,940,919
Fund Balance - Beginning of Year	<u>(3,372,091)</u>
Fund Balance - End of Year	<u>\$ 18,568,828</u>

¹The reduction to Federal COVID-19 Funds was for the return of unspent grant funds.

**North Carolina Department of Health and Human Services
Balance Sheet - Governmental Funds
Division of Mental Health/Developmental Disabilities and
Substance Use Services
June 30, 2025**

Exhibit N-1

	General Fund	Other Special Revenue Fund	Capital Projects Fund	Total Mental Health
ASSETS				
Cash and Cash Equivalents	\$ 213,192,381	\$ 66,950,633	\$ 52,180	\$ 280,195,194
Receivables:				
Accounts Receivable, Net	65,745,249	162,354		65,907,603
Intergovernmental Receivables	43,395,599	24,000		43,419,599
Other Receivables	181,548	83,394		264,942
Due from Other Funds	363			363
Inventories	12,388,956	42,350		12,431,306
Total Assets	334,904,096	67,262,731	52,180	402,219,007
DEFERRED OUTFLOWS OF RESOURCES				
	0	0	0	0
Total Assets and Deferred Outflows	\$ 334,904,096	\$ 67,262,731	\$ 52,180	\$ 402,219,007
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	\$ 51,192,098	\$ 4,812,036	\$ 12,675	\$ 56,016,809
Intergovernmental Payables	2,658,486			2,658,486
Medical Claims Payable	5,187,572	201,972		5,389,544
Due to Other State Agencies and Funds	2,223,073			2,223,073
Due to State of North Carolina Component Units	1,012,717			1,012,717
Other Liabilities		6,320		6,320
Total Liabilities	62,273,946	5,020,328	12,675	67,306,949
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	35,178,079	0	0	35,178,079
FUND BALANCES				
Nonspendable Inventories	12,388,956	42,350		12,431,306
Restricted for Health and Human Services	2,750	1,003,155		1,005,905
Committed to Health and Human Services	212,163,972	59,276,637	39,505	271,480,114
Assigned to Health and Human Services		1,985,980		1,985,980
Unassigned	12,896,393	(65,719)		12,830,674
Total Fund Balances	237,452,071	62,242,403	39,505	299,733,979
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 334,904,096	\$ 67,262,731	\$ 52,180	\$ 402,219,007

**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 Use Services
For the Fiscal Year Ended June 30, 2025**

Exhibit N-2

	<u>General Fund</u>	<u>Other Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Mental Health</u>
REVENUES				
Federal Funds	\$ 627,489,333	\$ 0	\$ 0	\$ 627,489,333
Federal COVID-19 Funds	53,906,574			53,906,574
Local Funds	2,780,534			2,780,534
Sales and Services		1,075,169		1,075,169
Patient Service Revenue, Net	33,181,090			33,181,090
Fees, Licenses, and Fines	669,455	516		669,971
Contributions, Gifts and Grants	1,972,910	149,605		2,122,515
Revenues from Other State Agencies	3,444,569	7,478,462	20,623	10,943,654
Miscellaneous Revenues	6,812,525	98,831		6,911,356
	<u>730,256,990</u>	<u>8,802,583</u>	<u>20,623</u>	<u>739,080,196</u>
EXPENDITURES				
Salaries and Benefits	714,922,601	357,372		715,279,973
Contracted Personal Services	127,029,929	9,195,496		136,225,425
Supplies and Materials	40,824,260	831,105		41,655,365
Travel	497,922	1,929		499,851
Communication	2,016,444	38,830		2,055,274
Utilities	15,053,929	18,939		15,072,868
Data Processing Services	2,522,025			2,522,025
Other Services	6,653,967	732,874		7,386,841
Lease/Subscription Expenditures:				
Principal Payments	852,917			852,917
Interest and Fees	68,593			68,593
Other Fixed Charges	7,965,884	1,704,798		9,670,682
Capital Outlay	9,559,339	21,094	20,623	9,601,056
Grants, State Aid, and Subsidies (Exhibit O-7)	660,537,558	12,536,508		673,074,066
Expenditures to Other State Agencies	300,000			300,000
Other Expenditures	27,298,247	65,409		27,363,656
	<u>1,616,103,615</u>	<u>25,504,354</u>	<u>20,623</u>	<u>1,641,628,592</u>
Excess of Revenues Under Expenditures	<u>(885,846,625)</u>	<u>(16,701,771)</u>	<u>0</u>	<u>(902,548,396)</u>
OTHER FINANCING SOURCES (USES)				
State Appropriations	799,412,192			799,412,192
Transfers In	579,469,105	10,119,749		589,588,854
Transfers Out	(390,728,553)	(2,490,484)		(393,219,037)
Transfers from State Reserve Fund	26,574,322			26,574,322
Transfers to State Reserve Fund	(23,648,262)			(23,648,262)
Leases/Subscriptions Issued	932,588			932,588
Other	72,060	40,274		112,334
	<u>992,083,452</u>	<u>7,669,539</u>	<u>0</u>	<u>999,752,991</u>
Net Change in Fund Balances	106,236,827	(9,032,232)		97,204,595
Fund Balances - Beginning of Year	<u>131,215,244</u>	<u>71,274,635</u>	<u>39,505</u>	<u>202,529,384</u>
Fund Balances - End of Year	<u>\$ 237,452,071</u>	<u>\$ 62,242,403</u>	<u>\$ 39,505</u>	<u>\$ 299,733,979</u>

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, 2025

Exhibit O-1

	Central Administration	Health Benefits (1)	Child Development (2)	Health Service Regulation	Public Health (3)	Aging	Blind/Deaf Services	Employment and Independence for People with Disabilities	Social Services (4)	Child and Family Well-Being (5)	Mental Health (6)	Total Governmental Funds
GRANTS, STATE AID, AND SUBSIDIES												
Medical Assistance:												
Managed Care	\$ 0	\$ 26,831,466,681	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 26,831,466,681
Supplemental Expenditures		(2,219,392,512)										(2,219,392,512)
Skilled Nursing Facilities and Personal Care		2,898,001,974										2,898,001,974
Physician Services		557,910,882										557,910,882
Medical Services		1,365,836,526										1,365,836,526
Hospital		520,710,461										520,710,461
Pharmacy Services (Net of Rebates)		(1,681,476,288)										(1,681,476,288)
Buy-In / Dual Eligible Expenditures		1,280,057,702										1,280,057,702
Dental		532,507,458										532,507,458
Direct Grants to Government Organizations		63,368,000										63,368,000
Other Medical Assistance		37,804,136										37,804,136
Total Medical Assistance	0	30,186,795,020	0	0	0	0	0	0	0	0	0	30,186,795,020
Social Service Programs:												
Food and Nutrition					(176,216)				3,244,466,198	190,291,640		3,434,581,622
Child and Family			767,977,191		53,590,018				673,557,843	191,767,841		1,686,892,893
Smart Start Programs			187,576,921									187,576,921
Support of Aging and Adult Programs									129,547,635			129,547,635
Support of Medicaid Programs									394,968,544			394,968,544
Other Social Service Programs									159,035,400			159,035,400
Total Social Service Programs	0	0	955,554,112	0	53,413,802	0	0	0	4,601,575,620	382,059,481	0	5,992,603,015
Public Health Programs:												
Communicable Diseases					79,987,607					1,078,296		81,065,903
General Public Health					13,878,526							13,878,526
Chronic Diseases					2,391,137					3,250,997		5,642,134
Other Public Health Programs					19,308,573					124,295,984		143,604,557
Total Public Health Programs	0	0	0	0	115,565,843	0	0	0	0	128,625,277	0	244,191,120
Mental Health Programs											673,074,066	673,074,066
Other Grants, State Aid, and Subsidies	90,183,366	0	0	5,479,726	0	121,274,688	8,062,669	111,084,860	0	0	0	336,085,309
Total Grants, State Aid, and Subsidies Expenditures	\$ 90,183,366	\$ 30,186,795,020	\$ 955,554,112	\$ 5,479,726	\$ 168,979,645	\$ 121,274,688	\$ 8,062,669	\$ 111,084,860	\$ 4,601,575,620	\$ 510,684,758	\$ 673,074,066	\$ 37,432,748,530

(1) See Supplementary Exhibit O-2
 (2) See Supplementary Exhibit O-3
 (3) See Supplementary Exhibit O-4
 (4) See Supplementary Exhibit O-5
 (5) See Supplementary Exhibit O-6
 (6) See Supplementary Exhibit O-7

**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, 2025**

Exhibit O-2

GRANTS, STATE AID, AND SUBSIDIES

Managed Care ¹	\$ 26,831,466,681
Supplemental Expenditures:	
Gap Payment - Upper Payment Limit	12,028,548
Disproportionate Share Hospital Payment	<u>(2,231,421,060)</u>
Total Supplemental Expenditures	<u>(2,219,392,512)</u>
Skilled Nursing Facilities and Personal Care:	
Skilled Nursing Facilities	2,366,090,987
Personal Care Services	<u>531,910,987</u>
Total Skilled Nursing Facilities and Personal Care	<u>2,898,001,974</u>
Physician Services:	
Physician Services	208,531,507
Clinics	296,607,177
Community Care of NC (N3CN)	<u>52,772,198</u>
Total Physician Services	<u>557,910,882</u>
Medical Services:	
Client Assistant Program (CAP)	672,832,335
Equipment	138,208,747
Health Check	3,617,745
Transport	150,600,006
Short Term Care	162,927,488
Non-Physician Services	52,233,882
Standalone Lab/X-Ray	14,694,293
Hospice	165,021,647
Case Management	145,218
Medical - General	<u>5,555,165</u>
Total Medical Services	<u>1,365,836,526</u>
Hospital:	
Hospital - Outpatient	199,410,292
Hospital - Inpatient	240,480,955
Emergency Room	<u>80,819,214</u>
Total Hospital	<u>520,710,461</u>
Prescribed Drugs:	
Pharmacy Services	298,009,063
Less Rebates	<u>(1,979,485,351)</u>
Total Prescribed Drugs (Net of Rebates)	<u>(1,681,476,288)</u>
Buy-In / Dual Eligible Expenditures:	
Medicare Part A	72,941,158
Medicare Part B	772,604,264
Medicare Part D	<u>434,512,280</u>
Total Buy-In / Dual Eligible Expenditures	<u>1,280,057,702</u>
Dental	532,507,458
Direct Grants to Governmental Organizations	63,368,000
Other Medical Assistance:	
Miscellaneous	<u>37,804,136</u>
Total Grants, State Aid, and Subsidies Expenditures	<u>\$ 30,186,795,020</u>

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, 2025**

Exhibit O-3

GRANTS, STATE AID, AND SUBSIDIES

Child and Family:

Subsidized Child Care Services	\$ 569,313,871
Pre-K Services	<u>198,663,320</u>
Total Child and Family	<u>767,977,191</u>

Smart Start Programs:

Smart Start Subsidized Child Care Services	60,644,917
Smart Start Child Care Related Activities	<u>126,932,004</u>
Total Smart Start Programs	<u>187,576,921</u>

Total Grants, State Aid, and Subsidies Expenditures	<u><u>\$ 955,554,112</u></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, 2025**

Exhibit O-4

GRANTS, STATE AID, AND SUBSIDIES

Social Service Programs:

Food and Nutrition:

Women, Infants, and Children (WIC) Program	\$ (173,941)
Other Nutrition	(2,275)
	<u>(176,216)</u>
Total Food and Nutrition	<u>(176,216)</u>

Child and Family:

Maternal and Infant Health	30,104,587
Children Health Services	5,701,872
Child and Adult Prevention	1,223,396
Early Intervention	16,560,163
	<u>53,590,018</u>

Total Child and Family

53,590,018

Total Social Service Programs

53,413,802

Public Health Programs:

Communicable Diseases	79,987,607
General Public Health	13,878,526
Chronic Diseases	2,391,137
Other Public Health Programs	19,308,573
	<u>115,565,843</u>

Total Public Health Programs

115,565,843

Total Grants, State Aid, and Subsidies Expenditures

\$ 168,979,645

**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, 2025**

Exhibit O-5

GRANTS, STATE AID, AND SUBSIDIES

Food and Nutrition:	
Food Stamp Program	\$ 3,101,770,537
Nutrition and Food Education Programs	<u>142,695,661</u>
Total Food and Nutrition	<u>3,244,466,198</u>
Child and Family:	
Child Services	385,957,029
Foster Care	149,142,961
Adoption	<u>138,457,853</u>
Total Child and Family	<u>673,557,843</u>
Support of Aging and Adult Programs	<u>129,547,635</u>
Support of Medicaid Programs	<u>394,968,544</u>
Other Social Service Programs:	
Low-Income Energy Assistance Program	104,702,684
Miscellaneous	<u>54,332,716</u>
Total Other Social Service Programs	<u>159,035,400</u>
Total Grants, State Aid, and Subsidies Expenditures	<u><u>\$ 4,601,575,620</u></u>

**North Carolina Department of Health and Human Services
 Schedule of Grants, State Aid, and Subsidies Expenditures
 Division of Child and Family Well-Being
 For the Fiscal Year Ended June 30, 2025**

Exhibit O-6

GRANTS, STATE AID, AND SUBSIDIES

Social Service Programs:

Food and Nutrition \$ 190,291,640

Child and Family:

Child Public 80,450,764

Child Women Infant and Children 78,485,527

Child Services 25,711,241

Children Health 4,381,580

Child Maternal 2,738,729

Total Child and Family 191,767,841

Total Social Service Programs 382,059,481

Public Health Programs:

Communicable Diseases 1,078,296

Chronic Diseases 3,250,997

Other Public Health Programs 124,295,984

Total Public Health Programs 128,625,277

Total Grants, State Aid, and Subsidies Expenditures \$ 510,684,758

**North Carolina Department of Health and Human Services
Schedule of Grants, State Aid, and Subsidies Expenditures
Division of Mental Health/Developmental Disabilities and
Substance Use Services
For the Fiscal Year Ended June 30, 2025**

Exhibit O-7

GRANTS, STATE AID, AND SUBSIDIES

Mental Health Programs:

Local Management Entity Expenditures	\$ 580,771,310
Non-Governmental Expenditures	75,455,060
Governmental Expenditures	<u>16,847,696</u>
Total Grants, State Aid, and Subsidies Expenditures	<u><u>\$ 673,074,066</u></u>



Independent Auditor's Report



North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Dr. Devdutta Sangvai, Secretary
Management of the North Carolina Department of Health and Human Services
Raleigh, North Carolina

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 major fund and the aggregate remaining fund information of the North Carolina Department of Health and Human Services (Department), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated June 12, 2026.

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, 2025, 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 were not 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.



Dave Boliek
State Auditor

Raleigh, North Carolina

June 12, 2026

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