

DEPARTMENT OF HEALTH

Annual Financial Report

June 30, 2022



DEPARTMENT OF HEALTH
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Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

Department of Health
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the major fund of the Department of Health, a department of Arkansas state government, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department of Health's departmental financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the major fund of the Department of Health as of June 30, 2022, the changes in financial position thereof, and the budgetary comparison for the general fund 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*, 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 opinion.

Emphasis of Matter

As indicated above, the financial statements of the Department of Health are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the major fund of the State that is attributable to the transactions of the Department of Health. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2022, the changes in its financial position, or budgetary comparisons for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2022 the department adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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 misstatements, 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 opinion. 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 *Government Auditing Standards* 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 *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatements 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

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Department of Health are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Department of Health individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

Management is responsible for the other information included in the report. The other information comprises the Schedule of Selected Information, Financial Information by Business Area, and Other General Information but does not include the departmental financial statements and our auditor's reports thereon. Our opinion on the departmental financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the departmental financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2023, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of the testing, and not to provide an opinion on the effectiveness of the department's 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.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
August 24, 2023
SAC990722

Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Department of Health
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund of the Department of Health (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department of Health's departmental financial statements, and have issued our report thereon dated August 24, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2022-1 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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*.

SCHEDULE OF FINDINGS AND RESPONSES

2022-1 As required by Ark. Code Ann. § 19-4-1502, which is incorporated into the Department of Finance and Administration Financial Management Guide, the executive head of a state agency shall keep and maintain a record of all property of an agency. During our audit, 4 assets owned by the State Medical Board, 10 assets located within the northeast region, and 31 assets primarily at the central complex were selected for review. The Agency was unable to locate 1 asset at the State Medical Board and 1 asset from the northeast region. The unlocated assets have a combined historical cost of \$24,054.

This is a repeat finding.

We recommend the Agency strengthen controls and procedures to ensure compliance with state law regarding capital assets.

Agency response:

Immediate Action: Regarding the Medical Board's 1 asset that could not be located, during the last week of August 2023, the Department of Health (DOH) Inventory Control Section reviewed the Board's assets/inventory listing and discovered that there were multiple listed items that could not be located, and the proper paperwork had not been filed with the Department of Finance and Administration (DFA) to remove them from the Board's inventory. On September 8, 2023, the Board along with assistance from Inventory Control submitted Credit for State Property Request forms and a letter to the DFA Deputy Director and Controller documenting a request to remove assets from their inventory list that could not be located. Also, the board provided documentation to DFA attesting to the items that had been turned in to Marketing & Redistribution (M&R) but not properly removed from their list of assets. This immediate action allowed for the Board's inventory listing to be current. Additionally, the Board has been instructed to remove items from their inventory when submitted to M&R in accordance with the Financial Management Guide Subchapter 15 – Property and Equipment Inventory.

Future Corrective Action:

Effective with the Fiscal Year 2024 annual yearend inventory auditing procedures conducted by the DOH Inventory Control Section in June will include an on-site inventory test count to verify the accuracy of items. The Medical Board will be included in the FY24 test count along with other randomly selected DOH business areas. The results of the test count will be submitted to the DOH CFO by no later than July 7 each year.

Immediate Action: Regarding the DOH Northeast Region's 1 out of 10 assets not being located, the DOH Inventory Control Section contacted the local health unit that was recorded as having the missing item and determined that the item (a freezer) was not missing. The issue was that the serial number that was given to the Inventory Control Section was incorrect, which resulted in an erroneous number being listed on the assets list and, consequently, no asset coinciding with the serial number was able to be located. As of September 6, 2023, the correct serial number has been assigned to the freezer.

Future Corrective Action:

Effective with the Fiscal Year 2024 annual yearend inventory auditing procedures conducted by the DOH Inventory Control Section in June will include an on-site inventory test count to verify the accuracy of items. Randomly selected programs and DOH business areas will be included in the annual test count. The results of the test count will be submitted to the DOH CFO by no later than July 7 each year. Department of Health leadership will monitor ongoing inventory tracking systems to certify that controls and procedures are in place to ensure compliance with state law regarding capital assets, specifically with the Financial Management Guide Subchapter 15 (Title 19, Chapter 4) – Property and Equipment Inventory.

Agency's Response to Findings

Government Auditing Standards require the auditors to perform limited procedures on the Agency's response to the finding identified in our audit and described in the Schedule of Findings and Responses above. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Tom Bullington". The signature is written in a cursive style with a long horizontal stroke at the end.

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 24, 2023

DEPARTMENT OF HEALTH
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2022

Exhibit A

| | General Fund |
|--|----------------|
| ASSETS | |
| Cash and cash equivalents | \$ 215,943,557 |
| Investments | 5,678,195 |
| Accounts receivable, net: | |
| Health care services | 3,766,601 |
| Infant formula rebate | 3,260,625 |
| Interest | 47,911 |
| Due from other state agencies | 1,759,081 |
| Prepaid items | 5,484,413 |
| Inventories | 32,045,746 |
| TOTAL ASSETS | \$ 267,986,129 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | |
| Liabilities: | |
| Accounts payable - vendors | \$ 9,663,024 |
| Accrued payroll | 8,473,379 |
| Due to other governments | 1,146,079 |
| Due to other state agencies | 1,333,191 |
| Unearned revenue | 7,209,010 |
| Total Liabilities | 27,824,683 |
| Deferred inflows of resources: | |
| Related to revenues | 1,721,199 |
| Fund balance: | |
| Nonspendable for: | |
| Prepaid items | 5,484,413 |
| Inventories | 32,045,746 |
| Restricted for program requirements | 27,193,904 |
| Committed for: | |
| Capital projects | 11,501,014 |
| Tobacco settlement | 36,035,545 |
| Program requirements | 102,065,847 |
| Assigned for capital projects | 9,184 |
| Unassigned | 24,104,594 |
| Total Fund Balance | 238,440,247 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | \$ 267,986,129 |

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

Exhibit B

| | General Fund |
|--|----------------------|
| REVENUES | |
| Cigarette tax | \$ 3,189,787 |
| Federal grants and reimbursements | 299,790,077 |
| Healthcare services | 48,655,665 |
| Licenses and fees | 37,595,246 |
| In-kind donations from local governments | 9,884,351 |
| Infant formula rebates | 18,490,141 |
| Other sales, refunds, and reimbursements | 9,684,481 |
| TOTAL REVENUES | 427,289,748 |
| Less: State Treasury service charge | 483,125 |
| NET REVENUES | 426,806,623 |
| EXPENDITURES | |
| Salary and benefits | 153,156,561 |
| Communication and transportation of commodities | 5,737,538 |
| Printing and advertising | 12,184,789 |
| Repairing and servicing | 7,409,953 |
| Utilities and rent | 13,734,119 |
| Travel and subsistence | 2,304,887 |
| Professional services | 131,598,523 |
| Insurance and bonds | 388,069 |
| Other expenses and services | 5,499,865 |
| Commodities, materials, and supplies | 144,474,969 |
| Assistance, grants, and aid | 130,387,177 |
| Refunds, taxes, and claims | 373,538 |
| Debt service interest | 19,536 |
| Low value asset purchases | 973,364 |
| Capital outlay | 4,222,687 |
| TOTAL EXPENDITURES | 612,465,575 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (185,658,952) |

DEPARTMENT OF HEALTH
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2022

Exhibit B

| | General Fund |
|--------------------------------------|----------------|
| OTHER FINANCING SOURCES (USES) | |
| Capitalized leases | \$ 1,659,658 |
| Interagency transfers in: | |
| General revenue distribution | 83,291,477 |
| Tobacco settlement distribution | 17,279,275 |
| Other, net | 125,629,812 |
| TOTAL OTHER FINANCING SOURCES (USES) | 227,860,222 |
| NET CHANGE IN FUND BALANCE | 42,201,270 |
| FUND BALANCE - JULY 1 | 196,238,977 |
| FUND BALANCE - JUNE 30 | \$ 238,440,247 |

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

Exhibit C

| | General Fund | | | Variance With Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|---|
| | Budgeted Amount | | Actual | |
| | Original | Final | | |
| REVENUES | | | | |
| Federal grants and reimbursements | \$ 178,217,601 | \$ 178,217,601 | \$ 299,790,077 | \$ 121,572,476 |
| Special revenues | 29,574,595 | 29,574,595 | 26,477,641 | (3,096,954) |
| Third party | 22,500,121 | 22,500,121 | 48,655,665 | 26,155,544 |
| Various program support | 27,742,201 | 27,742,201 | 33,876,224 | 6,134,023 |
| Manufacturer rebates | 22,870,199 | 22,870,199 | 18,490,141 | (4,380,058) |
| TOTAL REVENUES | 280,904,717 | 280,904,717 | 427,289,748 | 146,385,031 |
| Less: State Treasury service charge | | | 483,125 | (483,125) |
| NET REVENUES | 280,904,717 | 280,904,717 | 426,806,623 | 145,901,906 |
| EXPENDITURES | | | | |
| Regular salaries | 121,965,923 | 123,997,840 | 109,845,295 | 14,152,545 |
| Extra help | 2,243,437 | 5,901,435 | 1,583,119 | 4,318,316 |
| Personal services matching | 41,887,146 | 43,230,586 | 40,103,759 | 3,126,827 |
| Overtime | 123,500 | 671,776 | 48,829 | 622,947 |
| Operating expenses | 306,226,900 | 496,597,967 | 212,415,545 | 284,182,422 |
| Conference fees and travel | 978,598 | 1,106,549 | 244,473 | 862,076 |
| Professional fees and services | 16,623,680 | 88,470,457 | 21,304,179 | 67,166,278 |
| Grants and aid | 24,390,097 | 216,645,209 | 137,508,843 | 79,136,366 |
| Refunds and reimbursements | 24,813 | 24,813 | 7,755 | 17,058 |
| Capital outlay | 2,007,172 | 6,958,676 | 2,559,309 | 4,399,367 |
| Donated local health unit facility cost | | | 9,884,351 | (9,884,351) |
| Vaccines donated by the Centers for Disease Control and Prevention | | | 74,791,890 | (74,791,890) |
| COVID supplies donated by federal agencies | | | 2,168,228 | (2,168,228) |
| TOTAL EXPENDITURES | 516,471,266 | 983,605,308 | 612,465,575 | 371,139,733 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (235,566,549) | (702,700,591) | (185,658,952) | 517,041,639 |

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The Department of Health is a department of Arkansas state government, and its mission is to protect and improve the health and well-being of all Arkansans. To achieve this mission, the Agency delivers a broad range of preventive and regulatory public health services statewide. Funding is primarily comprised of state general revenue; federal revenue; health care services revenue collected from Medicaid, Medicare, and commercial insurance; and manufacturer rebates from contracted formula companies. Additional funding sources include special revenues from taxes and licensing fees, tobacco settlement funding, and various program support fees.

Act 85 of 1881, as amended, endowed the Agency with general supervision and control of all matters pertaining to public health and safety. Act 38 of 1971 created the Department of Health as a cabinet-level agency. Act 1954 of 2005 merged the Agency with the Department of Human Services and renamed the new agency the Department of Health and Human Services. Act 384 of 2007 gave the Governor the authority to separate the Division of Health from the Department of Health and Human Services and reestablish the Arkansas Department of Health. The Governor executed the final separation in Executive Order 07-05 on May 2, 2007.

The Arkansas State Board of Health (the Board) was created by Act 96 of 1913 and currently consists of 23 members appointed by the Governor, as authorized by Ark. Code Ann. § 20-7-102. The Board serves as a policy advisory body to the Agency and has specific statutory authority over issues related to public health. The Director serves at the pleasure of the Governor and acts as the Secretary of the Board and State Health Officer. With the approval of the Board, the Governor may appoint a Surgeon General who shall serve as a cabinet-level advisor to the Governor.

The Transformation and Efficiencies Act (Act 910 of 2019) led to the onboarding of 23 related boards and commissions to help further the mission of the cabinet-level Department of Health.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds, if applicable to this Agency, are recognized in the accompanying financial statements.

Governmental Funds

General Fund – General Fund is the general operating fund and is used to report all financial resources, except those required to be accounted for in another fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities (i.e., 45 days). Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met except for Medicaid and State Children's Health Insurance Program revenues, which are recognized using a one-year availability criterion. The economic resources measurement focus and accrual basis of accounting are used in all Proprietary and Fiduciary Fund financial statements. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. All short-term investments are stated at fair value.

E. Deposits and Investments

State Board of Finance Policies

Ark. Code Ann. § 19-4-805 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. The State Board of Finance promulgated cash management, collateralization, and investments policies and procedures, effective July 14, 2012, as referenced in the Financial Management Guide issued by the Department of Finance and Administration for use by all state agencies.

The stated goal of state cash management is the protection of principal, while maximizing investment income and minimizing non-interest earning balances. Deposits are to be made within the borders of the State of Arkansas and must qualify for Federal Deposit Insurance Corporation (FDIC) deposit insurance coverage. Policy requires a minimum of four bids to be sought on interest-bearing deposits in order to obtain the highest rate possible.

Policy states that funds are to be in transactional and non-transactional accounts as defined in the Financial Management Guide. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

State Board of Finance policy states that cash funds may only be invested in accounts and investments authorized under Ark. Code Ann. §§ 19-3-510, -518. All noncash investments must be held in safekeeping by a bank or financial institution. In addition, all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized. Collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit.

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling \$886,212, \$214,807,697, and \$3,177,418, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2022, none of the Agency's bank balance of \$4,089,506 was exposed to custodial credit risk.

Investments

Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value. The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation assumptions used to measure the fair value of the asset as follows:

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

- Level 1 – quoted prices in active markets for identical assets
- Level 2 – significant other observable assumptions
- Level 3 – significant unobservable assumptions

The Agency has the following recurring fair value measurements as of June 30, 2022:

| Investment Type | Valuation Method | Amount |
|--|------------------|--------------|
| State Treasury money management trust fund | Level 1 | \$ 2,500,777 |

Nonparticipating contracts (certificates of deposit) and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Changes in the fair value of investments are recognized as revenue in the operating statements.

Investment in the State Treasury Money Management Trust Fund – During the year, the Agency participated in the State Treasury Money Management Trust Fund for investment purposes. Ark. Code Ann. §§ 19-3-601 – 19-3-606 authorizes the State Treasury Money Management Trust Fund (“Fund”) to be a means by which state agencies and local governments and subdivisions may enhance their investment opportunities and earnings of idle cash funds and is defined as an external investment pool by the Governmental Accounting Standards Board (GASB) Statement No. 31. The Treasurer of State, the pool sponsor, may invest the Fund’s assets in those investments authorized by the State Treasury Management Law (Ark. Code Ann. § 19-3-518). The Treasurer of State has established procedures for participation in the Fund and its operation. Participants make deposits to and withdrawals from their accounts in the Fund using electronic banking transfers. Participants must notify the Fund managers of withdrawals no later than the close of business on the day prior to the withdrawal. Monthly earnings are distributed at the end of the following month with each participant receiving their proportionate share of earnings less any fees assessed. Monthly statements of activity are provided to each participant. Although the Treasurer of State does not provide reports to the Fund’s participants that include fair values of the proportionate share of the Fund’s investments, we have determined that there is not a significant difference for reporting purposes between the Agency’s cost plus interest earnings and the fair value of its investment in the Fund.

As of June 30, 2022, the Agency has the following investment balances and segmented maturities:

| Investment Type | Fair Value | Investment Maturities (In Years) | | | |
|-----------------------------|--------------|----------------------------------|-----|------|--------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Money management trust fund | \$ 2,500,777 | \$ 2,500,777 | | | |

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary shown above indicates that none of the Agency’s investment maturities are one year or longer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency’s exposure to credit risk as of June 30, 2022, is as follows:

DEPARTMENT OF HEALTH
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

| Rating | Fair Value |
|---------|--------------|
| Unrated | \$ 2,500,777 |

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that investments may not be returned. As of June 30, 2022, none of the Agency’s investment balance was exposed to custodial credit risk.

F. Interfund Balances and Transfers

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Details of interfund transfers are disclosed in the financial statements.

G. Inventories

Inventories represent the cost of consumable supplies and goods on hand at year-end. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories are reported as assets of the respective fund. Inventories, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute “available, spendable financial resources.” Inventories are valued for reporting purposes at actual cost.

H. Prepaid Expenses

Prepaid expenses generally represent the cost of consumable supplies on hand or unexpired services at year-end. The cost of these items is included with expenditures at the time of purchase. Prepaid expenses, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute “available, spendable financial resources.”

I. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period.

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

J. Fund Equity

Fund Balance

In the financial statements, fund balance is reported in one of five classifications, where applicable, based on the constraints imposed on the use of the resources.

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

J. Fund Equity (Continued)

Fund Balance (Continued)

The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g., prepaid items, inventories, long-term amount of loans and notes receivables, etc.) or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balance, where applicable, comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly, the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.

Assigned fund balance. This classification reflects amounts constrained by the State's "intent" to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or approved methods of financing.

Unassigned fund balance. This amount is the residual classification for the general fund.

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned, and unassigned.

K. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

NOTE 2: New Accounting Pronouncement

The Agency implemented GASB Statement No. 87, *Leases*, in the fiscal year ended June 30, 2022. A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transactions.

Lease Obligations

The Agency leases nonfinancial assets including buildings and infrastructure. Since the financial statements of the Agency are presented using the modified accrual basis of accounting, no liability or leased asset is reflected on the balance sheet. Additional details regarding leased assets and related obligations are presented in Other General Information.

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3: Subsequent Event

A. Effects of Coronavirus Disease 2019

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring a public health emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). The COVID-19 outbreak disrupted sales, travel, and everyday life across several industries and governments. The extent of the impact of COVID-19 on the financial statements for future reporting periods will depend on certain developments, including the duration of the outbreak and revenue collections – all of which are uncertain and cannot be predicted. The COVID-19 outbreak's anticipated effects are an increase in federal receipts and disbursements and the tasking of Agency staff with COVID-19 response at various levels. The Public Health Lab took on a major additional responsibility with respect to processing COVID-19 tests. The financial impact of COVID-19 on the Department of Health remains uncertain.

DEPARTMENT OF HEALTH
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2022
(UNAUDITED)

Schedule 1

| | For the Year Ended June 30, | | | | |
|--------------------------------------|-----------------------------|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| General Fund | | | | | |
| Total Assets | \$267,986,129 | \$238,323,263 | \$182,835,331 | \$123,045,571 | \$114,690,251 |
| Total Liabilities | 27,824,683 | 40,081,162 | 25,949,938 | 12,377,459 | 11,711,447 |
| Total Deferred Inflows of Resources | 1,721,199 | 2,003,124 | 4,472,318 | 1,094,718 | 2,816,366 |
| Total Fund Equity | 238,440,247 | 196,238,977 | 152,413,075 | 109,573,394 | 100,162,438 |
| Net Revenues | 426,806,623 | 355,424,063 | 278,230,057 | 251,608,012 | 261,867,340 |
| Total Expenditures | 612,465,575 | 522,766,888 | 369,933,306 | 336,845,556 | 345,643,996 |
| Total Other Financing Sources (Uses) | 227,860,222 | 211,168,727 | 134,542,930 | 94,648,500 | 101,923,221 |
| Agency Fund | | | | | |
| Total Assets | | | | | 10,000 |
| Total Liabilities | | | | | 10,000 |

DEPARTMENT OF HEALTH
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2022
(UNAUDITED)

Schedule 2

| Board/Commission/Division | Business Area | Assets | Liabilities & Deferred Inflows | Revenues | Expenditures | Other Financing Sources/(Uses) |
|---|---------------|-----------------------|--------------------------------|-----------------------|-----------------------|--------------------------------|
| Examiners of Alcoholism and Drug Abuse Counselors, Arkansas State Board of | 0204 | \$ 46,395 | \$ 31,876 | \$ 22,300 | \$ 24,359 | |
| Athletic Training, Arkansas State Board of | 0208 | 231,603 | 15,228 | 23,530 | 12,019 | |
| Examiners in Counseling, Arkansas State Board of | 0228 | 1,154,729 | 457,781 | 443,310 | 390,363 | \$ 3,755 |
| Physical Therapy, Arkansas State Board of | 0246 | 1,552,267 | 182,182 | 268,398 | 169,706 | 820 |
| Social Work Licensing Board | 0254 | 818,309 | 144,538 | 205,193 | 167,368 | 1,409 |
| Chiropractic Examiners, Arkansas State Board of | 0265 | 792,552 | 85,781 | 214,981 | 137,499 | 1,349 |
| Dental Examiners, Arkansas State Board of | 0268 | 3,455,794 | 505,503 | 552,371 | 272,720 | 5,214 |
| Dietetics Licensing Board | 0270 | 296,750 | 24,207 | 59,030 | 40,000 | |
| Hearing Instrument Dispensers, Arkansas Board of | 0271 | 83,111 | 7,715 | 20,771 | 27,836 | 126 |
| Medical Board, Arkansas State | 0274 | 15,014,855 | 1,143,554 | 6,244,299 | 2,950,046 | (22,963) |
| Nursing, Arkansas State Board of | 0277 | 8,530,001 | 3,908,387 | 3,828,616 | 3,382,001 | 266,696 |
| Dispensing Opticians, Arkansas Board of | 0279 | 284,326 | 28,809 | 47,303 | 41,736 | 607 |
| Optometry, Arkansas State Board of | 0280 | 389,268 | 82,972 | 165,171 | 98,998 | 200 |
| Pharmacy, Arkansas State Board of | 0283 | 3,263,511 | 1,699,764 | 2,165,273 | 3,235,668 | 872,821 |
| Podiatric Medicine, Arkansas State Board of | 0286 | 257,410 | (7,200) | 26,188 | 1,777 | (30) |
| Psychology Board, Arkansas | 0289 | 1,009,235 | 118,841 | 211,598 | 147,878 | 1,373 |
| Acupuncture and Related Techniques, Arkansas State Board of | 0290 | 41,850 | 8,892 | 20,083 | 2,282 | |
| Examiners in Speech-Language Pathology and Audiology, Arkansas State Board of | 0292 | 2,296,113 | 140,540 | 220,619 | 111,689 | 3,651 |
| Arkansas Spinal Cord Commission | 0295 | 180,499 | 82,345 | 3,399 | 2,412,181 | 2,396,336 |
| Arkansas Minority Health Commission | 0319 | 6,294,860 | 88,417 | 2,110 | 1,224,307 | 2,198,620 |
| Arkansas Tobacco Settlement Commission | 0334 | 8,321,534 | 2,838 | | 248,073 | 92,896 |
| Arkansas Department of Health | 0645 | 213,605,122 | 20,724,262 | 412,038,080 | 596,888,870 | 221,583,588 |
| Health Services Permit Agency | 0665 | 56,960 | 46,870 | 24,000 | 437,531 | 425,766 |
| Department of Health (cabinet) | 9907 | 9,075 | 21,780 | | 40,668 | 27,988 |
| Totals | | <u>\$ 267,986,129</u> | <u>\$ 29,545,882</u> | <u>\$ 426,806,623</u> | <u>\$ 612,465,575</u> | <u>\$ 227,860,222</u> |

DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2022
(UNAUDITED)

A. Capital Assets

Capital assets purchased (or leased) and in the custody of this Agency were recorded as expenditures at the time of purchase (lease inception). Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Only leases in excess of \$25,000 with non-State entities were recorded in the statewide accounting system. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

| | |
|-------------------------------------|--------|
| Assets: | Years |
| Equipment | 5-20 |
| Buildings and building improvements | 20-50 |
| Infrastructure | 10-40 |
| Land improvements | 10-100 |
| Intangibles | 4-95 |
| Other capital assets | 10-15 |

Capital assets activity for the year ended June 30, 2022, was as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|-------------------------------|----------------------|---------------------|---------------------|----------------------|
| Governmental activities: | | | | |
| Land | \$ 358,040 | | | \$ 358,040 |
| Improvements | 134,681 | | | 134,681 |
| Buildings | 45,000,603 | | | 45,000,603 |
| Equipment | 29,843,529 | \$ 2,566,107 | \$ 1,507,617 | 30,902,019 |
| Intangibles | 10,390,603 | | | 10,390,603 |
| Right-to-Use (RtU) assets: | | | | |
| RtU buildings | | 1,634,416 | | 1,634,416 |
| RtU infrastructure | | 25,242 | | 25,242 |
| Total governmental activities | <u>\$ 85,727,456</u> | <u>\$ 4,225,765</u> | <u>\$ 1,507,617</u> | <u>\$ 88,445,604</u> |

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

Plan Description – The Agency contributes to APERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the APERS Board of Trustees. APERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24 of the Arkansas Code Annotated. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-501-682-7855.

DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2022
(UNAUDITED)

B. Pension Plan (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2022, 2021, and 2020, were \$16.9 million, \$ 16.4 million, and \$ 16.2 million, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Transformation and Shared Services – Employee Benefits Division (DTSS-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DTSS-EBD related to medical and prescription drug plans are established by the State Board of Finance (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DTSS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DTSS-EBD is included in the State of Arkansas's Annual Comprehensive Financial Report (ACFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Transformation and Shared Services, 501 Woodlane, Suite 201, Little Rock, Arkansas 72201 or by calling 501-319-6565.

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed \$550 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

D. Compensated Absences – Employee Leave

Annual leave is earned by all full-time employees. Upon termination, employees are entitled to receive compensation for their unused accrued annual leave up to 30 days. Liabilities for compensated absences are determined at the end of the year based on current salary rates.

Sick leave is earned by all full-time employees and may be accrued up to 120 days. Compensation up to a maximum of \$7,500 for unused sick leave is payable to employees upon retirement.

Compensated absences are reported in the State's "government-wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2022 and 2021, amounted to \$11.8 million and \$11.7 million, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to \$0.1 million.

DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2022
(UNAUDITED)

E. Leases

The Agency has acquired property by entering into a contract that conveys control of the right to use another entity's nonfinancial asset which is treated as a lease under GASB Statement No. 87. The following is a schedule of future minimum lease payments under leases together with the present value of the minimum lease payments as of June 30, 2022:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|------------------|---------------------|
| 2023 | \$ 465,958 | \$ 13,983 | \$ 479,941 |
| 2024 | 237,061 | 8,362 | 245,423 |
| 2025 | 180,786 | 5,056 | 185,842 |
| 2026 | 174,964 | 2,248 | 177,212 |
| 2027 | 44,184 | 119 | 44,303 |
| Totals | <u>\$ 1,102,953</u> | <u>\$ 29,768</u> | <u>\$ 1,132,721</u> |