DEPARTMENT OF HUMAN SERVICES

Annual Financial Report

June 30, 2021

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF HUMAN SERVICES
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Arkansas

Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. Nelda Speaks
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 Human Services
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Department of Human Services, a department of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department of Human Services' departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund, and the aggregate remaining fund information of the Department of Human Services as of June 30, 2021, and the changes in financial position thereof and the budgetary comparison for the general fund and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

500 WOODLANE STREET, SUITE 172 • LITTLE ROCK, ARKANSAS 72201-1099 • PHONE (501) 683-8600 • FAX: (501) 683-8605
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Emphasis of Matter

Departmental Financial Statements

As indicated above, the financial statements of the Department of Human Services are intended to present the financial position, the changes in financial position and budgetary comparisons of only that portion of the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of Human Services. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2021, the changes in its financial position, and 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.

Implementation of New Accounting Guidance

As discussed in Note 1C to the financial statements, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Other Matters

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 Human Services 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 Human Services individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Human Services' departmental financial statements. The Schedule of Selected Information, Financial Information by Business Area, and Other General Information are presented for purposes of additional analysis and are not a required part of the departmental financial statements.

The Schedule of Selected Information, Financial Information by Business Area, and Other General Information have not been subjected to the auditing procedures applied in the audit of the departmental financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2022, on our consideration of the Department of Human Services' 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 that testing and not to provide an opinion on the effectiveness of the Department of Human Services' 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 of Human Services' internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger A. Norman

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

Little Rock, Arkansas
August 10, 2022
SAC990821

Arkansas

Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. Nelda Speaks
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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 Human Services
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 and the aggregate remaining fund information of the Department of Human Services (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department of Human Services' departmental financial statements, and have issued our report thereon dated August 10, 2022.

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 opinions 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; 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 did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses below as items 2021-1 through 2021-6 that we consider to be significant deficiencies.

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

2021-1 During our review of expenditures, we noted two duplicate payments in the amounts of $7,500 and $6,000 issued to United Family Services, Inc., a vendor providing services within the Division of Youth Services (DYS). The original payments were issued during May 2021, and the duplicate payments were issued during June 2021. The Agency was unaware of the duplicate payments, until notified by Arkansas Legislative Audit (ALA) during April 2022. The Agency received and deposited recoupment of the duplicate payments in May 2022.

We recommend the Agency strengthen controls over disbursements by implementing procedures designed to detect and prevent duplicate payments of the same invoice and/or for same services provided.

Management personnel responded: The Department of Human Services (DHS) concurs with this finding. DYS contract and finance teams have implemented a contract and invoice tracking system to prevent future duplicate payments to vendors. Upon receipt of an invoice, DYS enters the vendor name, invoice number, invoice amount, and service dates, plus additional information, into a tracking spreadsheet. This information must be reviewed prior to approving invoices for payment. The duplicate payments have been recouped from the vendor.

2021-2 Regulation R4-19-4-501 of the State Financial Management Guide states that strict control needs to be maintained during the processing of cash receipts to ensure that they are properly accounted for. The Agency's Administrative Procedures Manual Ch. 201, Section III, states that receipt books and/or cash logs are to be maintained for purposes of audit and internal control and that funds received must be receipted and deposited timely. Our review of the Agency's receipt and deposit of funds received in the various program areas revealed the following:

- Receipts not traced to deposit:
  - ***Arkansas State Hospital (ASH)-Finance Office*****:** Two checks in the amounts of $794 and $72, out of 25 sampled items totaling $38,015, could not be traced to deposit. The Agency stated the checks were either returned to the payor or forwarded to the client's last known address; however, no documentation of return was maintained.
  - ***Division of Aging, Adult, and Behavioral Health Services (DAABHS)***: One check in the amount of $29, out of three checks receipted for the year totaling $35,423, could not be traced to deposit.
  - ***Office of Finance – Accounts Payable Returned Checks***: Two checks in the amounts of $2 and $1,076 picked up by Central Office Accounts Receivable for processing and one check in the amount of $677 picked up by the Payroll Division for processing, out of 25 sampled items totaling $31,687, could not be traced to deposit. Subsequent to ALA testing, two of the payors have agreed to re-issue a check to the Agency.
- Untimely deposit:
  - ***Division of Youth Services (DYS)*****:** Six checks totaling $69,619, out of 11 checks receipted for the year totaling $140,493, were held from 18 up to 83 days before being deposited.
  - ***Division of Aging, Adult, and Behavioral Health Services***: Two checks totaling $35,394, out of three checks receipted for the year totaling $35,423, were held from 77 up to 201 days before being deposited.
- Failure to maintain receipt books and/or check log:
  - ***Central Office Receipting*** failed to maintain one book of 200 receipts for funds received from September 2020 through November 2020.
  - ***Division of Provider Services and Quality Assurance (DPSQA)*** failed to maintain a check log for August 2020 through November 2020.

We recommend the Agency review and follow Regulation R4-19-4-501 of the State Financial Management Guide and the Agency's Administrative Procedures Manual Ch. 201, Section III, regarding the processing of cash receipts.

Management personnel responded: DHS concurs with this finding. ASH, DAABHS, and DYS have implemented new procedures for tracking and reconciling cash receipts and deposits. DYS and DAABHS have updated their procedures for tracking and reconciling cash receipts and deposits. Both have updated their documented controls to require documentation of the reason for a delay in depositing checks. Office of Finance staff has been trained in the record retention and safekeeping of receipt books. The DPSQA check log was previously combined with the Division of Medical Services (DMS) check log. DPSQA's check log is now separate from the check log of DMS.

2021-3 Regulation R1-19-4-501 of the State Financial Management Guide states that agencies must have an established system of internal control and that strict control should be maintained during the processing of cash receipts. Our review of the Arkadelphia Human Development Center (HDC) Individual Personal Fund bank account and corresponding receipt and expenditure transactions revealed the following issues:

- Review of Receipt Books:
  - The receipt book was not maintained for July's manual deposits totaling $13,648.
  - Manual receipts were not issued for two bank deposits, totaling $300 and $1,600, respectively, during October and March.
  - Four receipts issued during May, totaling $223, were not deposited intact.
  - One June receipt was not used; however, it was not voided to prevent the practice of issuing receipts out of sequence.
  - One June receipt was missing due to being torn out of the receipt book; the Agency was unable to explain why it had been removed.
  - Five instances occurred throughout the year in which the applicable receipts did not match a bank deposit, resulting in a net total of $3 in funds receipted that could not be traced to an actual bank deposit.

- Testing of Receipts:
  - Two receipt items totaling $168, out of 30 items tested totaling $7,405, were applied to incorrect client accounts, resulting in two client ledger accounts being overstated and two client ledger accounts being understated.

- Testing of Expenditures:
  Review of 20 expenditure items totaling $10,500 revealed the following issues:
  - One instance, totaling $324, was noted in which client funds were drawn to purchase an in-store Walmart gift card used to place an online order. The online invoice maintained by the Agency documented that the order had been placed but did not provide detail as to whether the actual gift card was used as payment for the order.
  - In two instances, totaling $68, where multiple draws of petty cash funds for use by clients were replenished, the Agency failed to document management authorization and approval of the withdrawals. The Agency also did not maintain store receipts for $29 of the replenishments and, therefore, failed to document how the petty cash was spent. Additionally, upon the Agency's posting of the replenishment transactions in the general ledger, one client account was overcharged by $14, while another client account was under-charged by $10. Because of such errors in replenishment, the Agency has maintained a current overage in the petty cash drawer of $4.
  - In four instances totaling $2,450, client funds were drawn for personal expenditures, and store receipts documented a total of $2,505 spent, resulting in an excess of $55 in funds spent compared to funds withdrawn. No documentation was available as to who paid the extra $55, and no entries were posted in the general ledger documenting if the client account was ever charged for reimbursing the applicable party.

Inadequate documentation inhibits maintenance of an audit trail for review. Additionally, lack of due diligence in posting client account activity could lead to misappropriation of client funds entrusted to the Agency.

We recommend the Agency implement policies and procedures regarding the receipt and use of client funds and for the adequate recording and monitoring of financial activity for the Arkadelphia Human Development Center Individual Personal Funds.

Management personnel responded: DHS concurs with this finding. Division of Developmental Disabilities Services (DDS) conducted a comprehensive training for all HDC Business Office staff on the cash receipt, deposit, and withdrawal process in accordance with State Financial Management guidelines. All HDC Business Office staff will be required to complete this training course on an annual basis. New hires will be required to complete this training course as part of their orientation.

2021-4 Regulation R1-19-4-505 of the State Financial Management Guide states that government agencies must have an established system of internal control in relation to the safeguarding of assets. During our review of the Agency's Arkansas ABLE investments of Foster Care Trust funds, we noted a total of $906,437 in contributions, as of the 2021 fiscal year-end, were sent to a third-party administrator for investment against multiple foster care client investment accounts. The contributions were made over a three-year period in the amounts of $559,450, $212,065, and $134,922 for fiscal years 2021, 2020, and 2019, respectively.

We reviewed 25 of 269 client investment accounts, along with corresponding third-party administrator system reports, and noted the following discrepancies:

- One check contribution of $1,150, issued during November 2020, was applied against the wrong client investment account. The Agency was unaware of the error until notified by ALA during April 2022.
- One check contribution in the amount of $1,500, issued during December 2019, was sent back by the third-party administrator in January 2020 due to lack of identifying information. The Agency has allowed this check to remain outstanding, rather than re-issuing the funds for the intended client's account.
- One client investment account's prior-year activity of both funding and closure transactions was not listed on any of the system reports received by the auditor from the third-party administrator. Such omissions require the Agency to perform current/timely monitoring of client account balances.

Additionally, we determined the total Arkansas ABLE investment amount at June 30, 2021, posted in the Arkansas Administrative Statewide Information System (AASIS), was under reported by $8,772 due to the third-party administrator's year-end report erroneously omitting three active client account balances.

Finally, upon auditor inquiry, it was discovered that the third-party administrator notifies the Agency routinely of the availability of monthly reports and quarterly statements; however, the Agency has failed to incorporate a process of reviewing the reports and/or statements to verify that all contributions sent have been applied against the intended client account.

Lack of due diligence in monitoring foster care client investment account contributions and corresponding balances could lead to misappropriation of funds entrusted to the Agency.

We recommend the Agency implement policies and procedures regarding the monitoring of foster care client investment account assets as required by R1-19-4-505 of the State Financial Management Guide.

Management personnel responded*: DHS concurs with this finding. The Division of Children and Family Services (DCFS) Eligibility Unit has assigned staff to complete a monthly reconciliation of Arkansas ABLE investment accounts that will ensure funds are credited to the proper account, outstanding check items are addressed timely, and all client account balances are monitored. Monthly reports made available through the third-party administrator responsible for managing investments have been combined with existing agency reports to complete the monthly reconciliations.*

2021-5 Ark. Code Ann. § 19-4-1502 states that it is the responsibility of the executive head of each state agency to keep and maintain a record of all property of the agency belonging to the State of Arkansas. Regulation R1-19-4-1503 of the State Financial Management Guide states that all items transferred, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets. While performing an observation of assets from a current capital asset listing dated March 2, 2022, we noted 7 of 60 equipment items sampled, with a total purchase cost of $43,229, could not be located for observation. These items had inventory dates listed in AASIS as follows:

- 5 items were noted as last inventoried in May 2021 and/or June 2021.
- 1 item was noted as last inventoried in December 2020.
- 1 item had no inventory date listed.

None of these items were documented as lost, stolen, or obsolete prior to our sample testing.

We recommend the Agency strengthen controls over capital assets by ensuring management periodically reviews asset information for accuracy and completeness.

Management personnel responded: DHS concurs with this finding. The Agency continues to analyze and update its asset management procedures to ensure compliance with the State Financial Management Guide. Over the course of the last two fiscal years, the Agency has steadily increased the number of assets located and updated during inventory. In fiscal year 2022, the Agency located and updated 95% of its assets in AASIS. An internal investigation is being conducted to identify the 7 assets that could not be located for observation.

2021-6 DHS disbursed $4.7 million in Coronavirus Relief Funds for the Community Outreach Program within the Division of County Operations (DCO). During the approval process for granting the awards and in the corresponding issuance of the grant funds, DHS utilized a third-party administrator for vetting potential sub-grantees. In turn, the sub-grantees agreed to provide DHS-Office of Payment Integrity and Audit with supporting invoice/receipt documentation upon spending the funds received, as required per DHS' Proposal for Arkansas Coronavirus Relief Fund.

The third-party administrator awarded and disbursed 262 grants to approved sub-grantees in amounts ranging from $1,000 up to $450,000 per grant award. For our review, we selected the highest distributed grant award amount of $450,000 to the sub-grantee The Urban League of the State of Arkansas (ULSA).

ULSA's proposal/application for funding documented that it would serve 45 counties in need at $10,000 per county. ULSA subsequently contracted with Performance Tax Group (PTG) to distribute the funds to various organizations in the anticipated 45 counties. ULSA provided a summary listing of 17 organizations to whom PTG issued grant funds as well as the total amount paid to ULSA and PTG for administrative costs. Alongside bank statement documentation, we determined that $404,300 in grant funds was portrayed as distributed to the 17 organizations, with the remaining $45,700 retained by ULSA and PTG as allowable operating costs. Our review of the summary listing and detailed support provided for the 17 organizations' expending of the $404,300 grant funds revealed the following concerns:

- ULSA's summary listing of how the grant funds were disbursed did not match PTG's bank statement detail of disbursement. Although the summary listing totals the original $450,000 award, six of the payee amounts listed on the summary differed from the bank activity detail. It should be noted that two of the six payees with differing amounts were ULSA and PTG.
- The signed acknowledgement forms between ULSA and PTG with the applicable organizations to whom PTG disbursed the funds did not list the official amount of funding received by the organizations. Therefore, we do not consider the amounts documented as disbursed to be verified against the total amount received by each individual organization.
- PTG made nine cash withdrawals, totaling $165,750, in order to issue 36 cashier's checks among the 17 organizations. Supporting documentation provided by PTG for 26 of the cashier's checks, totaling $85,000, listed no identifying bank information; therefore, we question the validity of the cashier check.
- As required by the DHS Proposal for Arkansas Coronavirus Relief Fund, funding received by sub-grantees was to be used for its intended purpose and be adequately tracked and appropriately supported. The majority of the supporting documentation provided by the various organizations for expending the funding was considered inadequate and was un-readable and/or could not be deciphered by auditors and could not be reconciled with the amount noted as disbursed. We noted the following for three of the organizations:
    - A total of $21,250 was issued by electronic transfer to two separate organizations, owned by the same individual, that are not considered a food/meal service type vendor; therefore, we question why the organizations were granted the funds. Supporting documentation suggests the organizations further sub-granted the funds to various charitable groups to provide meals; however, the documentation was considered incomplete in detailing how all the funding was spent.
    - PTG distributed a total of $192,550 in grant funds to one organization to serve 21 counties. Information submitted as support for providing meals consisted of email correspondence among various county organizations and lists of people who were provided meals; however, not all 21 counties were represented in the information. Furthermore, we could not calculate/verify total amount spent for each county due to poor presentation of the information provided.

Due to these concerns, we question whether all the funds were distributed to the intended 17 organizations as well as whether the funds were spent to provide meals for all 45 counties, as required by the grant award.

During our testing for this grant award, the DHS-Office of Payment Integrity and Audit also performed an initial review of this grant award, resulting in various concerns.

We recommend DHS continue monitoring this grant award, as required by the DHS Proposal for Arkansas Coronavirus Relief Fund, to determine whether the funds were used for their intended purpose.

Management personnel responded*: DHS concurs with this finding and continues to monitor the grant of this award. On June 20, 2022, the Agency referred the concerns noted by Legislative Audit and DHS-Office of Payment Integrity and Audit to the United States Attorney's Office for the Eastern District of Arkansas.*

Agency's Response to Findings

The Agency's response to the findings identified in our audit is described above. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 10, 2022

DEPARTMENT OF HUMAN SERVICES
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2021

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	$ 1,187,892,913
Investments	5,114,254
Receivable, net:	
Medicaid	510,602,888
Adoption subsidies	221,263,476
Customer	250,843,927
Federal	64,592,265
Interest	403
Other	5,319,762
Due from other state agencies	5,688,674
Prepaid items	5,574,783
Inventories	4,841,764
TOTAL ASSETS	$ 2,261,735,109
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Medicaid payable	$ 410,301,099
Accounts payable - vendors	23,195,644
Adoptions subsidies payable	42,113,505
Accrued payroll	18,724,101
Grants payable	25,463,303
Due to other governments	4,418,978
Unearned revenue	209,619,401
Due to other state agencies	22,627,649
Total Liabilities	756,463,680
Deferred inflows of resources:	
Related to revenues	624,011,279
Fund balance:	
Nonspendable for:	
Prepaid items	5,574,783
Inventories	4,841,764
Restricted for:	
Debt service	4,367,373
Capital projects	6,659,142
Program requirements	108,042,923
Tobacco settlement	38,973,760
Committed for:	
Capital projects	11,802,985
Program requirements	75,550,067
Other	284,088,814
Assigned for:	
Capital projects	144,323
Other	11,498,333
Unassigned	329,715,883
Total Fund Balance	881,260,150
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 2,261,735,109

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

DEPARTMENT OF HUMAN SERVICES

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND

FOR THE YEAR ENDED JUNE 30, 2021

	General Fund
REVENUES	
Federal grants and reimbursements	$ 7,565,990,966
Grants and reimbursements	46,667,484
Medicaid drug rebates	327,530,925
Institutional reimbursements	171,519,579
Soft drink tax	41,329,879
Premium health insurance tax	42,723,588
Risk based provider premium	31,885,148
Quality assurance fees	74,642,170
Hospital assessment and intermediate care facility fees	96,391,037
Interest income	558,210
Other sales, refunds, and reimbursements	21,181,930
TOTAL REVENUES	8,420,420,916
Less: State Treasury service charge	83,895
NET REVENUES	8,420,337,021
EXPENDITURES	
Personal services - payroll	297,238,399
Employee benefits - matching	109,284,772
Communication and transportation of commodities	9,450,141
Printing and advertising	1,539,691
Repairing and servicing	11,425,174
Utilities and rent	16,356,169
Travel and subsistence	2,851,284
Professional services	69,576,681
Insurance and bonds	979,534
Other expenses and services	11,936,811
Commodities, materials, and supplies	20,224,943
Assistance, grants, and aid	9,399,250,596
Low value asset purchases	2,399,418
Debt service:	
Principal	3,140,739
Interest	1,157,800
Capital outlay	67,372,182
TOTAL EXPENDITURES	10,024,184,334
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,603,847,313)

DEPARTMENT OF HUMAN SERVICES

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	$ 1,808,872,242
General improvement funding	178,678
Tobacco settlement distribution	16,405,957
Crisis stabilization units funding	3,999,000
State Administration of Justice program	724,406
Prior year adjustment - Medicaid payable, net	(156,246,146)
Federal funding	269,964,190
Other transfers, net	24,211,609
TOTAL OTHER FINANCING SOURCES (USES)	1,968,109,936
NET CHANGE IN FUND BALANCE	364,262,623
FUND BALANCE - JULY 1	516,997,527
FUND BALANCE - JUNE 30	$ 881,260,150

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

DEPARTMENT OF HUMAN SERVICES

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund				
	Budgeted Amount			Variance With Final Budget Positive	
	Original	Final	Actual	(Negative)	
REVENUES					
Federal grants and reimbursements	$ 6,503,873,809	$ 6,503,873,809	$ 6,724,028,788	$ 220,154,979	
Supplemental Nutrition Assistance			841,962,178	841,962,178	(A)
Grants and reimbursements	12,514,729	12,514,729	46,667,484	34,152,755	
Medicaid drug rebates	55,127,235	55,127,235	327,530,925	272,403,690	
Various program support	410,908,150	410,908,150	171,519,579	(239,388,571)	
Soft drink tax	55,869,387	55,869,387	41,329,879	(14,539,508)	
Premium health insurance tax	31,726,905	31,726,905	42,723,588	10,996,683	
Risk based provider premium			31,885,148	31,885,148	
Quality assurance fees	83,104,843	83,104,843	74,642,170	(8,462,673)	
Hospital assessment and intermediate care facility fees	133,811,691	133,811,691	96,391,037	(37,420,654)	
Other sales, refunds, and reimbursements	4,863,786	4,863,786	21,181,930	16,318,144	
Interest income			558,210	558,210	
TOTAL REVENUES	7,291,800,535	7,291,800,535	8,420,420,916	1,128,620,381	
Less: State Treasury service charge			83,895	(83,895)	
NET REVENUES	7,291,800,535	7,291,800,535	8,420,337,021	1,128,536,486	
EXPENDITURES					
Regular salaries	316,753,967	295,899,770	284,626,806	11,272,964	
Extra help	11,179,261	7,711,776	6,789,766	922,010	
Operating expenses	142,921,177	140,686,885	100,142,386	40,544,499	
Personal services matching	118,572,130	111,587,462	109,284,772	2,302,690	
Grants and aids	9,772,960,258	10,125,083,789	8,603,618,813	1,521,464,976	
Overtime	7,774,088	6,001,048	5,821,826	179,222	
Conference fees and travel	879,229	454,232	47,476	406,756	
Professional fees and services	59,488,824	111,834,700	68,533,763	43,300,937	
Capital outlay	1,105,000	3,466,315	3,356,548	109,767	
Construction	12,414,729	18,587,016		18,587,016	
Extra salaries	27,000	27,000		27,000	
Marketing and redistribution proceeds		2,218		2,218	
Supplemental Nutrition Assistance			841,962,178	(841,962,178)	(A)
TOTAL EXPENDITURES	10,444,075,663	10,821,342,211	10,024,184,334	797,157,877	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,152,275,128)	(3,529,541,676)	(1,603,847,313)	1,925,694,363	

DEPARTMENT OF HUMAN SERVICES

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2021

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	$ 1,800,013,232	$ 1,800,013,232	$ 1,808,872,242	$ 8,859,010
General improvement funding			178,678	178,678
Tobacco settlement distribution	33,062,904	33,062,904	16,405,957	(16,656,947)
Crisis stabilization units funding			3,999,000	3,999,000
State Administration of Justice Program	1,286,216	1,286,216	724,406	(561,810)
Prior year adjustment - Medicaid payable, net			(156,246,146)	(156,246,146)
Federal funding			269,964,190	269,964,190
Other transfers, net			24,211,609	24,211,609
TOTAL OTHER FINANCING SOURCES (USES)	1,834,362,352	1,834,362,352	1,968,109,936	133,747,584
NET CHANGE IN FUND BALANCE	(1,317,912,776)	(1,695,179,324)	364,262,623	2,059,441,947
FUND BALANCE - JULY 1	516,997,527	516,997,527	516,997,527	0
FUND BALANCE - JUNE 30	$ (800,915,249)	$ (1,178,181,797)	$ 881,260,150	$ 2,059,441,947

(A) The Agency is considered a pass-through entity for these funds and only recognizes revenue and expenditures equal to the amount received and receivable at year-end to third-party recipients. Therefore, there are no revenues or expenditures budgeted.

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

DEPARTMENT OF HUMAN SERVICES
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2021

	Custodial Funds
ASSETS	
Cash and cash equivalents	$ 6,334,548
Receivables: accrued interest	128
Investments at fair value:	
Certificates of deposit	465,270
Mutual funds (1)	820,880
Total investments	1,286,150
TOTAL ASSETS	$ 7,620,826
NET POSITION	
Restricted for: individual clients	$ 7,620,826

(1) Money market mutual funds are not reported at fair value.

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

DEPARTMENT OF HUMAN SERVICES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Custodial Funds
Additions:	
Investment income: interest, dividends and other	$ 6,101
Beneficiary deposits	9,684,472
Total additions	9,690,573
Deductions:	
Beneficiary withdrawals/payments	7,021,971
Administrative expenses	1,321
Total deductions	7,023,292
Change in net position amounts held for individual clients	2,667,281
Net position - beginning (as restated)	4,953,545
Net position - ending	$ 7,620,826

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 38 of 1971 created the Department of Social and Rehabilitative Services, as a department of Arkansas state government, to bring together in one organizational structure a variety of separate but related agencies in an effort to improve the efficiency and effectiveness in the use of state and federal funds and to better coordinate the delivery of human services. Act 383 of 1977 changed the name of the Agency to the Department of Human Services (DHS).

A reorganization effort occurred under Act 164 of 1995, and again under Act 913 of 2017, with the purpose of merging and renaming certain divisions, creating new divisions, as well as improving overall efficiency and quality within DHS.

Act 910 of 2019 created the cabinet-level DHS, in which the Secretary of Human Services is the executive head of the cabinet-level department. The provisions of Act 910 of 2019 authorized the transfer of DHS' Division of State Services for the Blind to the authority of the cabinet-level Department of Commerce. Also authorized under this Act was the transfer of the Civilian Student Training Program (CSTP) from the Military Department to the authority of DHS.

DHS operates under a shared business services model in which the shared business services consist of the following offices: Chief Counsel, Communications and Community Engagement, Finance, Information and Technology, Human Resources, Legislative and Intergovernmental Affairs, Procurement, and Security and Compliance. The administrative functions/services of these offices are shared among all DHS' divisions, sections, and units within DHS.

DHS currently consists of the following eight programmatic divisions with responsibilities assigned to them as determined by the Secretary of Human Services:

1. Division of Aging, Adult, and Behavioral Health Services.
2. Division of Medical Services.
3. Division of Developmental Disabilities Services.
4. Division of County Operations.
5. Division of Youth Services.
6. Division of Children and Family Services.
7. Division of Child Care and Early Childhood Education.
8. Division of Provider Services and Quality Assurance.

Services provided to Arkansans by these programmatic divisions include, but are not limited to, the following: aging and adult services, adult protective services, children and family services, child abuse and neglect services, services for youth involved with the juvenile system, developmental disabilities services, Medicaid, food stamps, transitional employment assistance, long-term care, mental health services, volunteer services, and alcohol and drug abuse prevention services.

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Fund Accounting (Continued)

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.

Fiduciary Funds

Trust and Agency Funds –Trust and Agency Funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Custodial Funds. These funds account for assets held by the Agency as a custodial agent for clients under the care and supervision of the Agency.

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.

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was implemented for the year ended June 30, 2021. The statement establishes specific criteria for identifying fiduciary activities. All activities meeting these criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. A liability to the beneficiaries should only be recognized when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary(s) to release the assets. As explained in Note 1B, these funds are known as custodial funds. Prior to the adoption of this standard, they were called agency funds

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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 $428,420,118, $762,893,990, and $3,089,094, 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, 2021, $72,052,541 of the Agency's bank balance of $76,275,869 was exposed to custodial credit risk as follows

Uninsured and collateralized with securities held by the pledging financial institution	$ 72,052,541

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:

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

The fair value amounts in the table below do not reflect all investments included in the amounts presented in the financial statements. GASB Statement No. 72 provides reporting exceptions for specific investments including, but not limited to, money market mutual funds. The Agency has the following recurring fair value measurements as of June 30, 2021:

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

Investment Type	Valuation Method	Amount
General Fund		
Domestic securities	Level 1	$ 72,894
U.S. treasuries	Level 1	244,956
Negotiable certificates of deposit	Level 2	2,172,078
Total		$ 2,489,928

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.

As of June 30, 2021, the Agency has the following investment balances and segmented maturities:

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
General Fund					
Money market mutual funds (1)	$ 501	$ 501			
Domestic securities	72,894		$ 72,894		
U.S. treasuries	244,956		244,956		
Negotiable certificates of deposit	2,172,078	496,622	1,675,456		
Subtotal	2,490,429	497,123	1,993,306	$ 0	$ 0
Agency Fund					
Money market mutual funds (1)	820,880	820,880			
Total	$ 3,311,309	$ 1,318,003	$ 1,993,306	$ 0	$ 0

(1) Money market mutual funds are not reported at fair value.

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 60% 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, 2021, is as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

Rating	Fair Value	
General Fund		
AAA		
AA		
A		
BBB		
BB		
B		
Unrated	$ 2,490,429	
Total	$ 2,490,429	(1)
Agency Fund		
AAA	$ 175,773	
AA	150,662	
A	125,552	
BBB		
BB		
B		
Unrated	368,893	
Total	$ 820,880	(1)

(1) Money market mutual funds included in total are not reported at fair value.

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. None of the Agency's investments were exposed to custodial credit risk at June 30, 2021.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. The Agency places no limit on the amount it may invest in any one issuer. As of June 30, 2021, the Agency did not have any investments that represent more than 5% of net investments, excluding the State Treasury Money Management Trust Fund and investments that are fully insured or collateralized such as certificates of deposit.

F. 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.

G. 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."

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. 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.

I. 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.

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.

J. 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: Restatement of Prior-Year Ending Net Position

The State implemented GASB Statement No. 84, *Fiduciary Activities*, in the fiscal year ended June 30, 2021. GASB Statement No. 84 is required to be implemented retroactively for the cumulative effects of implementation. GASB Statement No. 84 establishes specific criteria for identifying fiduciary activities. All activities meeting these criteria should now present a statement of fiduciary net position and a statement of changes in fiduciary net position. Under GASB Statement No. 84, a liability to the beneficiaries should only be recognized when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. Another significant change was the renaming of agency funds to custodial funds. The cumulative effect of implementing GASB Statement No. 84 on the beginning net position as previously reported on June 30, 2020, is as follows:

Custodial Funds	
Beginning net position	$ 0
Prior-year GASB 84:	
Net Fiduciary Activities	4,953,545
Beginning net position, restated	$ 4,953,545

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DEPARTMENT OF HUMAN SERVICES
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2021
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2021	2020	2019	2018	2017
General Fund					
Total Assets	$ 2,261,735,109	$ 1,409,635,587	$ 1,260,929,808	$ 1,103,970,049	$ 924,446,806
Total Liabilities	756,463,680	437,292,980	510,082,603	522,407,741	482,732,721
Total Deferred Inflows of Resources	624,011,279	455,345,080	343,969,913	307,755,570	242,347,500
Total Fund Equity	881,260,150	516,997,527	406,877,292	273,806,738	199,366,585
Net Revenues	8,420,337,021	7,500,210,725	7,168,110,976	6,963,643,179	7,011,144,253
Total Expenditures	10,024,184,334	9,220,084,874	8,892,237,994	8,528,319,275	8,611,754,150
Total Other Financing Sources (Uses)	1,968,109,936	1,829,994,384	1,857,197,572	1,639,116,249	1,507,419,949
Aggregate Remaining Fund Information					
Total Assets	7,620,826	4,953,545	2,767,738	2,703,888	2,772,390
Total Liabilities		4,953,545	2,767,738	2,703,888	2,772,390
Total Net Position	7,620,826				
Additions	9,690,573				
Deductions	7,023,292				

The Transformation Act 910 of 2019 created the cabinet-level Department of Human Services presented in 2020 and 2021.
The former Department of Human Services was used for the years 2017 through 2019 for comparative purposes.

DEPARTMENT OF HUMAN SERVICES
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2021
(UNAUDITED)

Schedule 2

Board/Commission/Division		Business Area	Assets	Liabilities and Deferred Inflows	Revenues	Expenditures	Other Financing Sources/(Uses)
Shared Business Services and Various Divisions	(1)	0710	$ 2,261,729,518	$ 1,380,454,299	$ 8,420,337,021	$ 10,023,832,547	$ 1,967,765,204
Department of Human Services (cabinet-level)		9908	5,591	20,660		351,787	344,732
Totals			$ 2,261,735,109	$ 1,380,474,959	$ 8,420,337,021	$ 10,024,184,334	$ 1,968,109,936

(1) Shared Services and Various Divisions are administered under the direction and supervision of the cabinet-level Department of Human Services.
Shared Business Services consists of the following offices: Chief Counsel, Communications and Community Engagement, Finance, Information and Technology, Human Resources, Legislative and Intergovernmental Affairs, Procurement, and Security and Compliance.
The Various Divisions are as follows: Division of Aging, Adult, and Behavioral Health Services; Division of Child Care and Early Childhood Education; Division of Children and Family Services; Division of County Operations; Division of Developmental Disabilities Services; Division of Medical Services; Division of Provider Services and Quality Assurance; and Division of Youth Services.

A. Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. 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. 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, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 3,202,016		$ 8,550	$ 3,193,466
Improvements	6,729,252	$ 127,048	605,854	6,250,446
Buildings	226,412,686	78,374	6,907,448	219,583,612
Equipment	32,599,492	2,684,206	2,664,357	32,619,341
Low value equipment	28,896,319	2,400,785	3,612,159	27,684,945
Infrastructure	1,098,812			1,098,812
Assets under construction	91,526,555	64,283,060	78,374	155,731,241
Intangible assets	245,585,283			245,585,283
Total governmental activities	$ 636,050,415	$ 69,573,473	$ 13,876,742	$ 691,747,146

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.

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, 2021, 2020, and 2019, were $43,908,574, $ 45,714,387, and $45,655,806, 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 and Public School Life and Health Insurance Board (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 retires 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 $450 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, 2021 and 2020, amounted to $35,481,387 and $35,044,952, respectively. The net changes to compensated absences payable during the year ended June 30, 2021, amounted to $436,435.

E. Capital Lease

The Agency has leased property which under the GASB Statement No. 62 is treated as a capital lease. The lease(s) by category is as follows:

Class of Property	Asset Balance June 30, 2021
Buildings	$ 30,299,717

The following is a schedule of future minimum lease payments under capital leases together with the present value of the minimum lease payments as of June 30, 2021:

Years Ending June 30,	Governmental Fund Types Lease Payments
2022	$ 3,404,484
2023	3,102,349
2024	3,106,107
2025	3,109,170
2026	3,119,210
2027-2031	14,678,553
2032-2036	7,823,512
Total Minimum Lease Payments	38,343,385
Amount representing interest	8,043,668
Present Value of Minimum Lease Payments	$ 30,299,717

F. Note Payable – West Central Energy Plant

The Agency's Division of Behavioral Health Services – Arkansas State Hospital entered into a joint operating agreement, effective July 1, 2008, with the Board of Trustees of the University of Arkansas for Medical Sciences (UAMS) and the Arkansas Department of Health, concerning the construction, operation, and maintenance of the West Central Energy Plant. The agreement replaced an earlier-dated Memorandum of Understanding and obligated the Agency to make principal and interest payments to UAMS for a period of 180 months. Payments are due the 1st of each month and began in September 2007. The original principal amount and applicable interest rate for the debt were $8,722,091 and 3.58%, respectively. The Agency maintains a 27% ownership of the Plant and receives utility services at a reduced rate.

The following is a schedule of future minimum loan payments required to maturity as of June 30, 2021:

Years Ending June 30,	Principal	Interest	Total
2022	$ 853,254	$ 24,420	$ 877,674
2023	124,823	559	125,382
Totals	$ 978,077	$ 24,979	$ 1,003,056