DEPARTMENT OF HUMAN SERVICES

Annual Financial Report

June 30, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF HUMAN SERVICES
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENTS

OTHER INFORMATION (Unaudited)

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 Human Services
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022, and 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 opinions.

Emphasis of Matter

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, 2022, 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.

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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *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 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

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 Standa*rds, we have also issued our report dated August 30, 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 Norman

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

Little Rock, Arkansas
August 30, 2023
SAC990822

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, 2022, and the related notes to the financial statements, which collectively comprise the Department of Human Service's departmental financial statements, and have issued our report thereon dated August 30, 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 items 2022-1 through 2022-4 that we consider to be significant deficiencies.

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*.

500 WOODLANE STREET, SUITE 172 • LITTLE ROCK, ARKANSAS 72201-1099 • PHONE (501) 683-8600 • FAX: (501) 683-8605
www.arklegaudit.gov

SCHEDULE OF FINDINGS AND RESPONSES

2022-1 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 Public Guardian bank accounts, we noted eight bank accounts, totaling $648, whose ending balances were not reported in the Arkansas Administrative Statewide Information System (AASIS) at June 30, 2022. The Agency was listed as the legal Public Guardian; therefore, such accounts were considered fiduciary in nature and should have been included in the ending bank balance as reported under the Agency's fiduciary fund on the financial statements.

We recommend the Agency strengthen procedures in determining all bank accounts, and corresponding year-end balances to be reported in AASIS, in which the Agency holds fiduciary responsibility as the legal Public Guardian.

Management response: *DHS concurs with this finding. The Office of Public Guardian has updated its procedures to require all personal spending accounts to be submitted to the DHS Office of Finance monthly for review and documentation in AASIS.*

2022-2 Regulation R1-19-4-505 of the State Financial Management Guide states 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 $1,150,967 in foster care client trust funds (check contributions) had been sent by the Agency to a third-party administrator for investment against multiple foster care client investment accounts as of the 2022 fiscal year-end. Of this amount, $244,530 was sent for investment during FY2022, and the remaining $906,437 had been sent for investment during the prior three fiscal years.

Our review noted two instances of check contributions, of $1,100 and $4,000, respectively, being applied by the third-party administrator against the incorrect foster care client investment account. The Agency was unaware of the errors until notified by Arkansas Legislative Audit (ALA) staff in March 2023.

We also determined the total Arkansas ABLE Investment amount at June 30, 2022, posted in AASIS was under reported by $10,467. This under reporting relates to three foster care client investment accounts, in which the Agency had remained as Trustee, whose ending balances were not recorded in AASIS during the prior fiscal year-end, as noted in the prior audit report. The ending balances for these three foster care client investment accounts were, again, excluded from the Agency's AASIS recording of the ending Arkansas ABLE Investment balance at June 30, 2022.

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

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

Management response: *DHS concurs with this finding. The Division of Children and Family Services (DCFS) has implemented a monthly reconciliation process to monitor Arkansas ABLE investment accounts of foster care trust funds and will update AASIS to reflect three ending account balances for the three accounts in which the Agency remains a trustee.*

2022-3 The Agency notified ALA of an overpayment, as of December 2022, regarding the following non-emergency transportation contracts:

- Verida, Inc., dba Southeasttrans, Inc., was overpaid $3,417,841.
- Central Arkansas Development Council (CADC) was expected to be overpaid approximately $137,000 at the time of the Agency's notification to ALA.

Payments for these two contracts were processed in the Agency's Medicaid Management Information System (MMIS) and not in AASIS. The Division of Medical Services (DMS) recently experienced significant staff turnover, and new employees had not received adequate training on proper procedures regarding the monitoring of MMIS contract expenditures. In response to the Agency's discovery of the overpayment, DMS updated its procedures in order to monitor expenditures paid to date more closely and to help mitigate future occurrence of overspending prior to obtaining the necessary legislative approved amendment increases.

We reviewed 10 current contracts (including both Verida, Inc., dba Southeasttrans, Inc., and CADC) in which we obtained MMIS expenditure data, summarizing total amount paid from start date of the contracts up through current date of March 31, 2023. We determined that none of the MMIS contracts were considered overspent as of March 31, 2023. All contracts were supported by approved legislative contract amendments

Furthermore, the Agency subsequently notified ALA on August 17, 2023, of a confirmed overpayment of $805,494 regarding CADC's non-emergency transportation contract. Although the Agency had been following its revised monitoring procedures, the overpayment occurred due to an unexpected, significant increase in monthly premium payment rates. ALA did not perform any additional review of MMIS contract payments for the period of March 31, 2023 to current date.

We recommend the Agency update its monitoring procedures to deter overpayment of authorized contract amounts.

Management response: *DHS concurs with this finding. DMS has implemented multiple controls to monitor monthly spend for contracts paid through the MMIS. The controls span program and financial operations and include dual comparisons of spend to legislative authority and procedures to alert executive division staff when contract spend reaches 75% of legislative authority. DMS is also in the process of creating an automatic bar that will prevent payment in MMIS of any contract spend that has exceeded its legislative authority. While the Agency believes these controls will be effective, non-emergency transportation is a service that DHS is obligated by law to provide to Medicaid beneficiaries. To ensure that services continue, the Agency must continue to make contract payments to the vendor in the event there is an overspend on legislative authority. In the event of future overspends, the Agency will request an amendment to add additional funding to the contract.*

2022-4 R1-19-4-2004 of the State Financial Management Guide states that monies lost through improper redemption of checks shall be reported to Arkansas Legislative Audit (ALA), the Attorney General's office, and local law enforcement. Ark. Code Ann. § 25-1-124(b)(1)&(2) states that a public employee with supervisory fiduciary responsibility over all fiscal matters of a public employer shall report to ALA the apparent theft or misappropriation of public funds within five business days upon learning of the theft.

The Agency notified ALA and authorities of the following improper activity:

- $10,687 in Patients Money Funds ($9,252 in cash and $1,435 in checks and money orders) was initially receipted by the Arkansas State Hospital (ASH) and subsequently delivered to and receipted by the Agency's Central Receipting Office for bank deposit from September 29, 2022 through January 27, 2023. However, as confirmed by an internal investigation, none of these monies were deposited into the bank. The employee responsible for the funds not deposited voluntarily terminated employment with the Agency effective February 11, 2023. The Agency reported the missing funds to law enforcement, and as of report date, the funds have not been recovered.

- A total of $27,409 was paid to three ASH employees for 1,528 hours not actually worked, as shown below:

	Amount Paid	Hours Clocked-In	Date
Employee 1	$ 24,012	1,455	July 11, 2021 through September 28, 2022
Employee 2	1,953	42	October 2, 2022 through October 26, 2022
Employee 3	1,444	31	October 2, 2022 through October 26, 2022
	$ 27,409	1,528	

The employment of all three individuals was terminated by the Agency. The improper payments have not been recovered.

We recommend the Agency pursue recoupment of lost funds and continue to report any possible fraudulent activity to ALA and applicable authorities.

Management response: *DHS concurs with this finding. The Arkansas State Hospital has implemented monitoring procedures that require the review of hours clocked in against an employee's approved work schedule. The Office of Finance has updated its cash room procedures to require two employees to process all cash received, daily cash log reconciliations, and delivery of all cash received to Managerial Accounting on the date of receipt for processing.*

Agency's Response to Findings

Government Auditing Standards require the auditors to perform limited procedures on the Agency's responses to the findings identified in our audit and described in the Schedule of Findings and Responses above. The Agency's responses were 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

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 30, 2023

DEPARTMENT OF HUMAN SERIVCES
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2022

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	$ 1,257,258,742
Investments	4,267,363
Receivable, net:	
Medicaid	601,541,837
Adoption subsidies	227,863,561
Customer	131,941,143
Federal	92,400,401
Interest	495
Other	662,241
Due from other state agencies	5,919,386
Prepaid items	6,619,383
Inventories	5,329,358
TOTAL ASSETS	$ 2,333,803,910
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Medicaid payable	$ 368,601,014
Accounts payable - vendors	48,651,528
Adoptions subsidies payable	43,390,164
Accrued payroll	23,278,292
Grants payable	39,241,535
Due to other governments	5,198,189
Unearned revenue	135,073,157
Due to other state agencies	24,003,065
Total Liabilities	687,436,944
Deferred inflows of resources:	
Related to revenues	738,156,530
Fund balance:	
Nonspendable for:	
Prepaid items	6,619,383
Inventories	5,329,358
Restricted for:	
Debt service	4,378,051
Tobacco settlement	44,038,725
Committed for:	
Capital projects	9,726,968
Program requirements	21,888,296
Other	782,689,738
Assigned for:	
Capital projects	144,323
Other	11,498,333
Unassigned	21,897,261
Total Fund Balance	908,210,436
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 2,333,803,910

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, 2022

	General Fund
REVENUES	
Federal grants and reimbursements	$ 8,718,635,678
Grants and reimbursements	34,364,061
Medicaid drug rebates	326,073,792
Institutional reimbursements	177,692,732
Soft drink tax	41,067,637
Premium health insurance tax	52,488,077
Risk based provider premium	33,597,035
Quality assurance fees	76,504,239
Hospital assessment and	
intermediate care facility fees	103,539,880
Interest income	1,255,858
Other sales, refunds, and reimbursements	16,755,413
TOTAL REVENUES	9,581,974,402
Less: State Treasury service charge	81,398
NET REVENUES	9,581,893,004
EXPENDITURES	
Personal services - payroll	322,041,286
Employee benefits - matching	116,476,459
Communication and transportation of commodities	13,017,193
Printing and advertising	1,297,512
Repairing and servicing	10,057,525
Utilities and rent	17,542,919
Travel and subsistence	3,971,966
Professional services	78,490,797
Insurance and bonds	1,032,366
Other expenses and services	8,369,798
Commodities, materials, and supplies	21,687,880
Assistance, grants, and aid	11,010,874,723
Refunds, taxes, and claims	33,214,506
Low value asset purchases	2,739,393
Debt service:	
Principal	3,012,971
Interest	1,336,168
Capital outlay	88,831,147
TOTAL EXPENDITURES	11,733,994,609
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,152,101,605)

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

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	$ 1,783,382,813
Tobacco settlement distribution	18,596,501
State Administration of Justice program	593,638
Federal funding	294,340,385
Capitalized leases	24,046,032
Prior year refund to grant expenditures	51,763,435
Other, net	6,329,087
TOTAL OTHER FINANCING SOURCES (USES)	2,179,051,891
NET CHANGE IN FUND BALANCE	26,950,286
FUND BALANCE - JULY 1	881,260,150
FUND BALANCE - JUNE 30	$ 908,210,436

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, 2022

	General Fund				
	Budgeted Amount			Variance With Final Budget Positive	
	Original	Final	Actual	(Negative)	
REVENUES					
Federal grants and reimbursements	$ 7,054,057,471	$ 7,054,057,471	$ 7,918,269,844	$ 864,212,373	
Supplemental Nutrition Assistance			800,365,834	800,365,834	(A)
Grants and reimbursements	15,188,804	15,188,804	34,364,061	19,175,257	
Medicaid drug rebates	69,512,366	69,512,366	326,073,792	256,561,426	
Various program support	503,483,317	503,483,317	177,692,732	(325,790,585)	
Soft drink tax	47,592,000	47,592,000	41,067,637	(6,524,363)	
Premium health insurance tax	39,206,354	39,206,354	52,488,077	13,281,723	
Risk based provider premium	15,069,894	15,069,894	33,597,035	18,527,141	
Quality assurance fees	83,802,874	83,802,874	76,504,239	(7,298,635)	
Hospital assessment and intermediate care facility fees	108,010,600	108,010,600	103,539,880	(4,470,720)	
Other sales, refunds, and reimbursements	9,765,556	9,765,556	16,755,413	6,989,857	
Interest income			1,255,858	1,255,858	
TOTAL REVENUES	7,945,689,236	7,945,689,236	9,581,974,402	1,636,285,166	
Less: State Treasury service charge			81,398	(81,398)	
NET REVENUES	7,945,689,236	7,945,689,236	9,581,893,004	1,636,203,768	
EXPENDITURES					
Regular salaries	328,476,563	312,824,498	305,806,352	7,018,146	
Extra help	11,179,261	7,668,994	6,619,049	1,049,945	
Operating expenses	150,157,401	151,890,624	104,230,651	47,659,973	
Personal services matching	124,835,218	120,794,412	116,476,458	4,317,954	
Grants and aids	9,814,546,214	10,876,786,646	10,289,689,251	587,097,395	
Overtime	7,774,088	10,362,736	9,615,885	746,851	
Conference fees and travel	842,908	571,948	166,168	405,780	
Professional fees and services	57,649,385	114,062,784	76,344,872	37,717,912	
Capital outlay	905,000	1,728,684	24,680,089	(22,951,405)	
Extra salaries	27,000				
Marketing and redistribution proceeds		2,762		2,762	
Supplemental Nutrition Assistance			800,365,834	(800,365,834)	(A)
TOTAL EXPENDITURES	10,496,393,038	11,596,694,088	11,733,994,609	(137,300,521)	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,550,703,802)	(3,651,004,852)	(2,152,101,605)	1,498,903,247	

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

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	$ 1,723,382,813	$ 1,723,382,813	$ 1,783,382,813	$ 60,000,000
Tobacco settlement distribution	64,556,448	64,556,448	18,596,501	(45,959,947)
State Administration of Justice Program	375,971	375,971	593,638	217,667
Federal funding			294,340,385	294,340,385
Capitalized leases			24,046,032	24,046,032
Prior year refund to grant expenditures			51,763,435	51,763,435
Other, net			6,329,087	6,329,087
TOTAL OTHER FINANCING SOURCES (USES)	1,788,315,232	1,788,315,232	2,179,051,891	390,736,659
NET CHANGE IN FUND BALANCE	(762,388,570)	(1,862,689,620)	26,950,286	1,889,639,906
FUND BALANCE - JULY 1	881,260,150	881,266,150	881,260,150	0
FUND BALANCE - JUNE 30	$ 118,871,580	$ (981,423,470)	$ 908,210,436	$ 1,889,639,906

(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, 2022

		Custodial Funds
ASSETS		
Cash and cash equivalents	$	4,993,019
Receivables: accrued interest		84
Investments at fair value:		
Certificates of deposit		451,232
Mutual funds (1)		923,340
Total investments		1,374,572
TOTAL ASSETS	$	6,367,675
NET POSITION		
Restricted for: individual clients	$	6,367,675

(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

Exhibit E

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2022

	Custodial Funds
Additions:	
Investment income: interest, dividends and other	$ 6,952
Beneficiary deposits	5,545,689
Total additions	5,552,641
Deductions: Beneficiary withdrawals/payments	6,805,792
Change in net position amounts held for individual clients	(1,253,151)
Net position - beginning	7,620,826
Net position - ending	$ 6,367,675

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.

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B Basis of Presentation – Fund Accounting (Continued)

Fiduciary Funds

Trust and Custodial Funds –Trust and Custodial 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*, 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.

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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 $33,442,602, $1,226,087,425, and $3,095,393, 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, $97,372,242 of the Agency's bank balance of $106,649,006 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging financial institution	$ 97,372,242

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(s) 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 had the following recurring fair value measurements as of June 30, 2022:

Investment Type	Valuation Method	Amount
General Fund		
Domestic securities	Level 1	$ 55,250
Negotiable certificates of deposit	Level 2	1,567,992
Total		$ 1,623,242

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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, 2022, the Agency had 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					
Domestic securities	$ 55,250		$ 55,250		
Negotiable certificates of deposit	1,567,992		1,567,992		
Subtotal	1,623,242	$ 0	1,623,242	$ 0	$ 0
Agency Fund					
Money market mutual funds (1)	923,340	923,340			
Total	$ 2,546,582	$ 923,340	$ 1,623,242	$ 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 64% 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, was as follows:

Rating	Fair Value	
General Fund		
AAA		
AA		
A		
BBB		
BB		
B		
Unrated	$ 1,623,242	
Total	$ 1,623,242	
Agency Fund		
AAA	$ 198,227	
AA	311,499	
A		
BBB		
BB		
B		
Unrated	413,614	
Total	$ 923,340	(1)

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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, 2022.

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, 2022, 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."

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Fund Equity (Continued)

Fund Balance (Continued)

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: 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. 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 HUMAN SERVICES
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	$ 2,333,803,910	$ 2,261,735,109	$ 1,409,635,587	$ 1,260,929,808	$ 1,103,970,049
Total Liabilities	687,436,944	756,463,680	437,292,980	510,082,603	522,407,741
Total Deferred Inflows of Resources	738,156,530	624,011,279	455,345,080	343,969,913	307,755,570
Total Fund Equity	908,210,436	881,260,150	516,997,527	406,877,292	273,806,738
Net Revenues	9,581,893,004	8,420,337,021	7,500,210,725	7,168,110,976	6,963,643,179
Total Expenditures	11,733,994,609	10,024,184,334	9,220,084,874	8,892,237,994	8,528,319,275
Total Other Financing Sources (Uses)	2,179,051,891	1,968,109,936	1,829,994,384	1,857,197,572	1,639,116,249
Aggregate Remaining Fund Information					
Total Assets	6,367,675	7,620,826	4,953,545	2,767,738	2,703,888
Total Liabilities			4,953,545	2,767,738	2,703,888
Total Net Position	6,367,675	7,620,826			
Additions	5,552,641	9,690,573			
Deductions	6,805,792	7,023,292			

The Transformation Act 910 of 2019 created the cabinet-level Department of Human Services presented for years 2020 through 2022.
The former Department of Human Services was used for the years 2018 and 2019 for comparative purposes.

DEPARTMENT OF HUMAN SERVICES
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2022
(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	$ 2,333,820,067	$ 1,425,564,646	$ 9,581,892,020	$ 11,733,625,329	$ 2,178,713,512
Department of Human Services (cabinet-level)		9908	(16,157)	28,828	984	369,280	338,379
Totals			$ 2,333,803,910	$ 1,425,593,474	$ 9,581,893,004	$ 11,733,994,609	$ 2,179,051,891

(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 (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	$ 3,193,466			$ 3,193,466
Improvements	6,250,446	$ 77,390		6,327,836
Buildings	219,583,612	1,048,492		220,632,104
Equipment	32,619,341	508,161	$ 2,108,092	31,019,410
Low value equipment	27,684,945	2,740,324	2,424,750	28,000,519
Infrastructure	1,098,812	36,168		1,134,980
Assets under construction	155,731,241	47,249,943		202,981,184
Intangible assets	245,585,283	33,575		245,618,858
Right to use asset - buildings		24,046,032		24,046,032
Total governmental activities	$ 691,747,146	$ 75,740,085	$ 4,532,842	$ 762,954,389

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, 2022, 2021, and 2020, were $46,986,129, $ 43,908,574, and $ 45,714,387, 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 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 $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 $33,882,194 and $35,481,387, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to $1,599,193.

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 the GASB Statement No. 8.

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:

Years Ending June 30,	Principal	Interest	Total
2023	$ 6,603,330	$ 237,046	$ 6,840,376
2024	3,986,564	147,993	4,134,557
2025	1,912,179	101,587	2,013,766
2026	1,545,285	71,941	1,617,226
2027	1,200,467	47,621	1,248,088
2028-2032	2,375,993	74,527	2,450,520
Totals	$ 17,623,818	$ 680,715	$ 18,304,533

F. Installment Purchase

The Agency has installment purchase agreements under the provisions of Arkansas Development Finance Authority (ADFA) and Division of Building Authority (DBA) regarding construction, renovation, and the sub-leasing of the Donaghey complex facility. The installment purchase agreements were accounted for as a capital lease in fiscal years 2021 and prior. Beginning in fiscal year 2022, the Agency implemented GASB Statement No. 87, *Leases*, in which such leases were classified as finance purchase agreements.

The following is a schedule of required future principal and interest payments on the installment purchase agreements at June 30, 2022:

Years Ending June 30,	Principal	Interest	Total
2023	$ 2,343,750	$ 1,017,209	$ 3,360,959
2024	2,215,000	891,107	3,106,107
2025	2,269,584	839,586	3,109,170
2026	2,335,000	784,210	3,119,210
2027	2,401,666	717,305	3,118,971
2028-2032	9,405,417	2,154,166	11,559,583
2033-2037	7,169,583	653,929	7,823,512
Totals	$ 28,140,000	$ 7,057,512	$ 35,197,512

G. 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, 2022:

Years Ending June 30,	Principal	Interest	Total
2023	$ 124,823	$ 559	$ 125,382