DEPARTMENT OF HUMAN SERVICES

Annual Financial Report

June 30, 2023

LEGISLATIVE JOINT AUDITING COMMITTEE

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

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

Kevin William White, CPA, JD
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, 2023, 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, 2023, 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, 2023, 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.

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 judgment 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 September 30, 2024, 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

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
September 30, 2024
SAC990823

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, 2023, 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 September 30, 2024.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below in the Schedule of Findings and Responses as items 2023-1 through 2023-3.

SCHEDULE OF FINDINGS AND RESPONSES

2023-1 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. Policy P1-19-4-1503 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. Additionally, the Agency's Capital Asset Policy 2000 states that Agency Divisions are to conduct an annual physical asset sighting.

While performing an observation of assets from a current capital asset listing dated March 20, 2024, we noted 9 of the 60 equipment items sampled, with a total purchase cost of $32,874, could not be physically located for observation and/or were not properly identified for audit verification as follows:

- Four items could not be physically located; none of these items had been documented as lost, stolen, or obsolete prior to our sample testing.
- Three items were presented for observation; however, no identifying tag number was maintained, and/or no identifying serial number was documented on the fixed asset listing in the Arkansas Administrative Statewide Information System (AASIS).
- One item was presented as transferred to the Agency's warehouse; however, documentation provided did not list an identifying tag number or serial number.
- One item was discovered as having been transferred to Marketing and Redistribution (M&R) in July 2021; however, the item remained on the fixed asset listing as a current, active item as of March 20, 2024, and was noted in AASIS as having been last sighted for inventory on June 30, 2022.

Additionally, of the 60 items tested, 6 had documented dates in AASIS as being last inventoried over two years prior to the sample listing date of March 20, 2024.

We recommend the Agency strengthen controls over capital assets by performing annual physical sightings as well as ensuring management review AASIS asset information for accuracy and completeness.

Management response: *DHS concurs with this finding. All items noted as deficiencies have been updated in AASIS to reflect the correct status and division procedures have been updated to ensure compliance with the DHS Capital Asset Policy.*

2023-2 Policy P1-19-4-505 of the State Financial Management Guide states that government agencies must have an established system of internal control for the safeguarding of assets. During our review of the Agency's Arkansas ABLE investments of Foster Care Trust funds, we noted a total of $1,349,117 in foster care client trust funds (check contributions) were sent by the Agency to a third-party administrator for investment against multiple foster care client investment accounts as of the 2023 fiscal year end. Of this amount, $198,150 was sent for investment during fiscal year 2023, and the remaining $1,150,967 was issued for investment during the prior four fiscal years.

Our review of the check contributions issued and corresponding ending investment balances noted the following:

- In two instances, check contributions of $700 and $800, respectively, had been applied by the third-party administrator against incorrect foster care client investment accounts, of which the Agency was unaware.
- The Agency failed to properly monitor, identify, and follow through with timely remedial action regarding check contributions outstanding at the end of fiscal year 2023. Eight outstanding check items, totaling $8,300, were outstanding ranging from 10 months up to 21 months at the time of our review (March 2024) with the following issues noted:
    - Five outstanding checks were sent to the third-party administrator but never invested against the applicable investment account.
    - Three outstanding checks were misfiled by the Agency and never submitted to the third-party administrator for investment.

The Agency became aware of the issues regarding these 8 outstanding checks upon auditor inquiry.

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 strengthen policies and procedures regarding the monitoring of foster care client investment account assets, as required per Policy P1-19-4-505 of the State Financial Management Guide.

Management response: *DHS concurs with this finding. DCFS has implemented a new process for submitting checks to the third-party administrator, a reconciliation process for ABLE investment accounts, and monthly meetings with the third-party administrator that will identify any contributions that are outstanding or deposited in the incorrect amount. Checks have been reissued and invested for clients who remain in DCFS custody. If the client is no longer in DCFS custody, funds have been returned to the Social Security Administration.*

2023-3 Policy P1-19-4-505 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. The Agency's procedures documenting gift card handling by the Division of Children and Family Services (DCFS) state that a completed and signed chain of custody form, listing distribution date and recipient receipt, must be returned to the Agency within 14 business days. The Agency's procedures also state that all gift cards must be kept secure in the Division's safe.

During fiscal year 2023, the Agency purchased 116 gift cards, with a total value of $11,025, to be used within the DCFS Program Division as Christmas gifts, graduation gifts, and/or survey incentives. Additionally, as of the beginning of fiscal year 2023, the Agency had 48 gift cards, with a total value of $2,359, on hand in the Division office safe.

Based on review of DCFS distribution of gift cards, we determined that the Agency did not properly follow procedures regarding the obtaining and maintaining of final recipient signed/dated chain of custody forms and did not ensure that undistributed cards were held in the Division's safe. For 17 gift cards, valued at $1,700, our review revealed the following:

- For five gift cards valued at $500, reported as distributed in December 2022, the final signed chain of custody forms listed different card numbers other than the identifying card numbers on file with the Agency.

- For eight gift cards valued at $800, with an intended distribution date of May 2023, the chain of custody form provided as documentation either had no recipient signature and date or was signed and dated by the recipient in March 2024, at the time of our review.

- Four gift cards valued at $400, with an intended distribution date of May 2023, were not distributed but were being held onsite at a county field office. The Agency became aware of this upon our review, in March 2024, at which time the cards were returned to the Agency's Division office safe.

Additionally, the Agency failed to report the safe contents, valued at $1,704, an asset in AASIS on June 30, 2023.

Lack of oversight regarding gift card monitoring and distribution could lead to theft or misappropriation of assets.

We recommend the Agency strengthen controls regarding the monitoring and distribution of gift card assets, as well as appropriately report the value of safe contents in AASIS.

Management response: *DHS concurs with this finding. For five gift cards, the agency recorded the serial number on the chain of custody form as opposed to the actual gift card number. DCFS provided Legislative Audit with gift card numbers that corresponded with the serial numbers on the chain of custody form. For twelve gift cards with intended distribution dates of May 2023, the original change of custody forms for six were misplaced and youths were presented with the forms for signature. Four youth signed, and two refused. One chain of custody form was unable to be located due to the responsible DCFS worker leaving the agency. Five cards were not delivered and have been returned to the DCFS office safe. Responsible staff have been retrained on DCFS procedures for handling gift cards.*

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 responses.

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
September 30, 2024

DEPARTMENT OF HUMAN SERVICES
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2023

	General Fund
ASSETS	
Cash and cash equivalents	$ 1,305,148,783
Investments	5,115,667
Receivable, net:	
Medicaid	756,868,151
Adoption subsidies	219,511,324
Customer	148,295,564
Federal	115,621,621
Interest	9,477
Other	778,680
Due from other state agencies	8,250,658
Prepaid items	4,101,130
Inventories	4,922,073
TOTAL ASSETS	$ 2,568,623,128
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Medicaid payable	$ 415,404,957
Accounts payable - vendors	35,542,103
Adoptions subsidies payable	44,556,812
Accrued payroll	7,613,675
Grants payable	75,316,434
Due to other governments	12,321,202
Unearned revenue	80,093,093
Due to other state agencies	32,679,788
Total Liabilities	703,528,064
Deferred inflows of resources:	
Related to revenues	780,852,759
Fund balance:	
Nonspendable for:	
Prepaid items	4,101,130
Inventories	4,922,073
Restricted for:	
Debt service	4,769,634
Capital projects	15,041,905
Program requirements	1,207,001
Tobacco settlement	66,486,445
Committed for:	
Capital projects	10,934,118
Program requirements	102,561,907
Other	788,157,072
Assigned for:	
Capital projects	220,162
Other	10,551,414
Unassigned	75,289,444
Total Fund Balance	1,084,242,305
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 2,568,623,128

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, 2023

	General Fund
REVENUES	
Federal grants and reimbursements	$ 9,156,475,177
Grants and reimbursements	36,592,989
Medicaid drug rebates	387,205,280
Institutional reimbursements	205,398,634
Soft drink tax	44,043,824
Premium health insurance tax	44,111,734
Risk based provider premium	30,459,152
Quality assurance fees	94,356,718
Hospital assessment and intermediate care facility fees	116,711,759
Interest income	1,128,302
Other sales, refunds, and reimbursements	17,350,370
TOTAL REVENUES	10,133,833,939
Less: State Treasury service charge	75,951
NET REVENUES	10,133,757,988
EXPENDITURES	
Personal services - payroll	336,111,787
Employee benefits - matching	124,710,877
Communication and transportation of commodities	16,154,547
Printing and advertising	1,484,483
Repairing and servicing	8,919,777
Utilities and rent	17,606,103
Travel and subsistence	5,543,046
Professional services	96,016,963
Insurance and bonds	1,024,154
Other expenses and services	7,600,602
Commodities, materials, and supplies	23,062,172
Assistance, grants, and aid	11,188,834,052
Refunds, taxes, and claims	25,267,652
Low value asset purchases	1,387,604
Debt service:	
Principal	2,284,824
Interest	1,490,256
Capital outlay	43,555,316
TOTAL EXPENDITURES	11,901,054,215
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,767,296,227)

DEPARTMENT OF HUMAN SERVICES

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	$ 1,829,699,565
Restricted reserve funding	4,668,000
Tobacco settlement distribution	19,124,811
State Administration of Justice program	412,249
Federal funding	47,991,559
Capitalized leases	11,814,105
Prior-year adjustments	23,797,426
Other, net	5,820,381
TOTAL OTHER FINANCING SOURCES (USES)	1,943,328,096
NET CHANGE IN FUND BALANCE	176,031,869
FUND BALANCE - JULY 1	908,210,436
FUND BALANCE - JUNE 30	$ 1,084,242,305

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, 2023

	General Fund				
	Budgeted Amount			Variance With Final Budget Positive	
	Original	Final	Actual	(Negative)	
REVENUES					
Federal grants and reimbursements	$ 7,190,097,827	$ 7,190,097,827	$ 8,494,071,859	$ 1,303,974,032	
Supplemental Nutrition Assistance			662,403,318	662,403,318	(A)
Grants and reimbursements	16,014,729	16,014,729	36,592,989	20,578,260	
Medicaid drug rebates	75,323,451	75,323,451	387,205,280	311,881,829	
Various program support	488,699,010	488,699,010	205,398,634	(283,300,376)	
Soft drink tax	47,591,000	47,591,000	44,043,824	(3,547,176)	
Premium health insurance tax	39,217,415	39,217,415	44,111,734	4,894,319	
Risk based provider premium	15,001,650	15,001,650	30,459,152	15,457,502	
Quality assurance fees	87,467,126	87,467,126	94,356,718	6,889,592	
Hospital assessment and intermediate care facility fees	108,010,600	108,010,600	116,711,759	8,701,159	
Other sales, refunds, and reimbursements	14,644,894	14,644,894	17,350,370	2,705,476	
Interest income			1,128,302	1,128,302	
TOTAL REVENUES	8,082,067,702	8,082,067,702	10,133,833,939	2,051,766,237	
Less: State Treasury service charge			75,951	(75,951)	
NET REVENUES	8,082,067,702	8,082,067,702	10,133,757,988	2,051,690,286	
EXPENDITURES					
Regular salaries	346,473,615	348,765,474	318,207,012	30,558,462	
Extra help	11,229,261	9,542,464	6,367,033	3,175,431	
Operating expenses	157,630,845	156,245,861	133,918,512	22,327,349	
Personal services matching	132,436,620	135,486,338	124,710,876	10,775,462	
Grants and aids	10,231,783,830	11,037,589,111	10,540,331,135	497,257,976	
Construction	15,914,729	14,772,007		14,772,007	
Overtime	15,235,393	14,621,779	11,537,363	3,084,416	
Conference fees and travel	842,908	728,832	351,795	377,037	
Professional fees and services	70,649,925	128,145,363	87,681,388	40,463,975	
Capital outlay	1,585,509	3,256,763	15,545,783	(12,289,020)	
Extra salaries	27,000				
Marketing and redistribution proceeds		87		87	
Supplemental Nutrition Assistance			662,403,318	(662,403,318)	(A)
TOTAL EXPENDITURES	10,983,809,635	11,849,154,079	11,901,054,215	(51,900,136)	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,901,741,933)	(3,767,086,377)	(1,767,296,227)	1,999,790,150	

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, 2023

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	$ 1,723,733,133	$ 1,723,733,133	$ 1,829,699,565	$ 105,966,432
Restricted reserve funding			4,668,000	4,668,000
Tobacco settlement distribution	64,557,871	64,557,871	19,124,811	(45,433,060)
State Administration of Justice Program	375,971	375,971	412,249	36,278
Federal funding			47,991,559	47,991,559
Capitalized leases			11,814,105	11,814,105
Prior year adjustments			23,797,426	23,797,426
Other, net			5,820,381	5,820,381
TOTAL OTHER FINANCING SOURCES (USES)	1,788,666,975	1,788,666,975	1,943,328,096	154,661,121
NET CHANGE IN FUND BALANCE	(1,113,074,958)	(1,978,419,402)	176,031,869	2,154,451,271
FUND BALANCE - JULY 1	908,210,436	908,210,436	908,210,436	0
FUND BALANCE - JUNE 30	$ (204,864,522)	$ (1,070,208,966)	$ 1,084,242,305	$ 2,154,451,271

(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, 2023

	Custodial Funds
ASSETS	
Cash and cash equivalents	$ 4,355,927
Receivables:	
Accrued interest	905
Other receivables	120
Total receivables	1,025
Investments at fair value:	
Certificates of deposit	455,790
Mutual funds (1)	1,137,660
Total investments	1,593,450
TOTAL ASSETS	$ 5,950,402
NET POSITION	
Restricted for: individual clients	$ 5,950,402

(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, 2023

	Custodial Funds
Additions:	
Investment income: interest, dividends and other	$ 7,799
Beneficiary deposits	5,598,540
Total additions	5,606,339
Deductions:	
Beneficiary withdrawals/payments	5,996,883
Administrative expenses	26,729
Total deductions	6,023,612
Change in net position amounts held for individual clients	(417,273)
Net position - beginning	6,367,675
Net position - ending	$ 5,950,402

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 divisions, sections, and units within DHS.

At fiscal year-end, DHS consisted 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.

<u>Governmental Funds</u>

<u>General Fund</u> – 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 fund 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 $50,577,903, $1,253,661,687, and $3,116,138, 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, 2023, $44,368,322 of the Agency's bank balance of $51,564,948 was exposed to custodial credit risk as follows

Uninsured and collateralized with securities held by the pledging financial institution	$ 44,368,322

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, 2023:

Investment Type	Valuation Method	Amount
General Fund		
Domestic securities	Level 1	$ 60,358
Negotiable certificates of deposit	Level 2	2,394,960
Total		$ 2,455,318

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, 2023, 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					
Domestic securities	$ 60,358		$ 60,358		
Negotiable certificates of deposit	2,394,960	$ 723,372	1,671,588		
Subtotal	2,455,318	723,372	1,731,946	$ 0	$ 0
Agency Fund					
Money market mutual funds (1)	1,137,660	1,137,660			
Total	$ 3,592,978	$ 1,861,032	$ 1,731,946	$ 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 48% 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, 2023, is as follows:

Rating	Fair Value
General Fund	
AAA	
AA	
A	
BBB	
BB	
B	
Unrated	$ 2,455,318
Total	$ 2,455,318
Agency Fund	
AAA	$ 259,615
AA	419,496
A	
BBB	
BB	
B	
Unrated	458,549
Total	$ 1,137,660 (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. As of June 30, 2023, none of the Agency's investments were exposed to custodial credit risk.

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, 2023, 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Fund Equity (Continued)

Fund Balance (Continued)

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: Leases

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.

Schedule 1

DEPARTMENT OF HUMAN SERVICES
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2023
(UNAUDITED)

	For the Year Ended June 30,				
	2023	2022	2021	2020	2019
General Fund					
Total Assets	$ 2,568,623,128	$ 2,333,803,910	$ 2,261,735,109	$ 1,409,635,587	$ 1,260,929,808
Total Liabilities	703,528,064	687,436,944	756,463,680	437,292,980	510,082,603
Total Deferred Inflows of Resources	780,852,759	738,156,530	624,011,279	455,345,080	343,969,913
Total Fund Equity	1,084,242,305	908,210,436	881,260,150	516,997,527	406,877,292
Net Revenues	10,133,757,988	9,581,893,004	8,420,337,021	7,500,210,725	7,168,110,976
Total Expenditures	11,901,054,215	11,733,994,609	10,024,184,334	9,220,084,874	8,892,237,994
Total Other Financing Sources (Uses)	1,943,328,096	2,179,051,891	1,968,109,936	1,829,994,384	1,857,197,572
Aggregate Remaining Fund Information					
Total Assets	5,950,402	6,367,675	7,620,826	4,953,545	2,767,738
Total Liabilities				4,953,545	2,767,738
Total Net Position	5,950,402	6,367,675	7,620,826		
Additions	5,606,339	5,552,641	9,690,573		
Deductions	6,023,612	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 2023. The former Department of Human Services was used for the 2019 year for comparative purposes.

DEPARTMENT OF HUMAN SERVICES
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2023
(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	$ 2,568,613,073	$ 1,484,375,502	$ 10,133,756,608	$ 11,900,767,685	$ 1,942,993,226
Department of Human Services (cabinet-level)		9908	10,055	5,321	1,380	286,530	334,870
Totals			$ 2,568,623,128	$ 1,484,380,823	$ 10,133,757,988	$ 11,901,054,215	$ 1,943,328,096

(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, 2023, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 3,193,466			$ 3,193,466
Improvements	6,327,836	$ 63,247		6,391,083
Buildings	220,632,104	468,958		221,101,062
Equipment	31,019,410	1,745,675	$ 990,089	31,774,996
Low value equipment	28,000,519	1,389,082	1,635,026	27,754,575
Infrastructure	1,134,980			1,134,980
Assets under construction	202,981,184	40,371,268	414,796	242,937,656
Intangible assets	245,618,858	6,133		245,624,991
Right to use asset - buildings	24,046,032	15,195,536	196,794	39,044,774
Total governmental activities	$ 762,954,389	$ 59,239,899	$ 3,236,705	$ 818,957,583

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 5.25% 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, 2023, 2022, and 2021, were $51,840,370, $46,986,129, and $43,908,574, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

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

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by 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, 2023 and 2022, amounted to $33,301,219 and $33,882,194, respectively. The net changes to compensated absences payable during the year ended June 30, 2023, amounted to $580,975.

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. 87. For more information on the Agency's right-to-use assets, refer to Note A above.

Future amounts required to be paid for principal and interest on lease obligations as of June 30, 2023, are as follows:

Years Ending June 30,	Principal	Interest	Total
2024	$ 7,168,189	$ 497,575	$ 7,665,764
2025	3,890,531	342,045	4,232,576
2026	2,476,779	258,197	2,734,976
2027	2,150,380	197,087	2,347,467
2028	1,405,215	147,540	1,552,755
2029-2033	4,311,956	261,764	4,573,720
Totals	$ 21,403,050	$ 1,704,208	$ 23,107,258

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 sub-leasing of the Donaghey complex facility. Such agreements are treated as finance purchase agreements under the GASB Statement No. 87.

The following is a schedule of required future principal and interest payments on the installment agreements at June 30, 2023:

Years Ending June 30,	Principal	Interest	Total
2024	$ 2,398,750	$ 965,800	$ 3,364,550
2025	2,269,583	839,586	3,109,169
2026	2,335,000	784,211	3,119,211
2027	2,401,666	717,305	3,118,971
2028	2,475,417	647,681	3,123,098
2029-2033	11,748,334	2,053,061	13,801,395
2034-2038	2,351,250	107,353	2,458,603
Totals	$ 25,980,000	$ 6,114,997	$ 32,094,997