

DEPARTMENT OF HEALTH

Annual Financial Report

June 30, 2020



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Arkansas

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



Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Department of Health
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Department of Health, a department of Arkansas state government, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department of Health's departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund of the Department of Health as of June 30, 2020, 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.

Emphasis of Matter

As indicated above, the financial statements of the Department of Health are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the major fund of the State that is attributable to the transactions of the Department of Health. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2020, the changes in its financial position, or budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2021, on our consideration of the Department of Health'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 that testing and not to provide an opinion on the effectiveness of the Department of Health'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 of Health's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
August 5, 2021
SAC990720

Arkansas



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

Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Department of Health
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund of the Department of Health (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department of Health's departmental financial statements, and have issued our report thereon dated August 5, 2021.

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 may exist that have not been identified.

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Tom Bullington". The signature is written in a cursive, flowing style.

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 5, 2021

DEPARTMENT OF HEALTH
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2020

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	\$ 155,897,715
Investments	5,649,485
Accounts receivable, net:	
Health care services	4,502,314
Infant formula rebate	1,764,971
Interest	28,551
Due from other governments	58,908
Due from other state agencies	4,114,573
Prepaid items	1,632,238
Inventories	9,186,576
	9,186,576
TOTAL ASSETS	\$ 182,835,331
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable - vendors	\$ 7,935,315
Accrued payroll	6,098,261
Due to other governments	91,047
Due to other state agencies	4,476,469
Unearned revenue	7,348,846
Total Liabilities	25,949,938
Deferred inflows of resources:	
Related to revenues	4,472,318
Fund balance:	
Nonspendable for:	
Prepaid items	1,632,238
Inventories	9,186,576
Restricted for program requirements	24,078,702
Committed for:	
Capital projects	5,418,389
Tobacco settlement	24,776,748
Program requirements	67,126,125
Assigned for capital projects	1,069,653
Unassigned	19,124,644
Total Fund Balance	152,413,075
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 182,835,331

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

DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	General Fund
REVENUES	
Cigarette tax	\$ 3,208,675
Federal grants and reimbursements	170,219,971
Health care services	29,394,518
Licenses and fees	34,198,735
In-kind donations from local governments	9,761,543
Infant formula rebates	24,645,669
Other sales, refunds, and reimbursements	7,246,728
 TOTAL REVENUES	 278,675,839
 Less: State Treasury service charge	 445,782
 NET REVENUES	 278,230,057
 EXPENDITURES	
Salary and benefits	143,615,308
Communication and transportation of commodities	4,279,357
Printing and advertising	4,015,805
Repairing and servicing	4,460,093
Utilities and rent	13,568,238
Travel and subsistence	2,614,833
Professional services	27,717,175
Insurance and bonds	377,392
Other expenses and services	6,511,550
Commodities, materials, and supplies	95,073,077
Assistance, grants, and aid	64,839,018
Refunds, taxes, and claims	324,543
Debt service:	
Principal	0
Interest	0
Low value asset purchases	710,925
Capital outlay	1,825,992
 TOTAL EXPENDITURES	 369,933,306
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 (91,703,249)

DEPARTMENT OF HEALTH
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	\$ 84,580,236
Tobacco settlement distribution	17,079,753
Other, net	1,948,810
Transfers in due to Transformation Act	30,934,131
TOTAL OTHER FINANCING SOURCES (USES)	134,542,930
NET CHANGE IN FUND BALANCE	42,839,681
FUND BALANCE - JULY 1	109,573,394
FUND BALANCE - JUNE 30	\$ 152,413,075

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

DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACUTAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Federal grants and reimbursements	\$ 160,832,933	\$ 160,832,933	\$ 170,219,970	\$ 9,387,037
Special revenues	25,346,233	25,346,233	22,874,372	(2,471,861)
Third party	17,150,609	17,150,609	29,394,518	12,243,909
Various program support	66,956,369	66,956,369	30,649,747	(36,306,622)
Manufacturer rebates	23,449,507	23,449,507	24,645,669	1,196,162
TOTAL REVENUES	293,735,651	293,735,651	277,784,276	(15,951,375)
Less: State Treasury service charge			(445,781)	445,781
NET REVENUES	293,735,651	293,735,651	278,230,057	(15,505,594)
EXPENDITURES				
Regular salaries	119,074,952	119,401,882	105,192,430	14,209,452
Extra help	2,288,437	1,712,873	1,066,298	646,575
Personal services matching	39,929,748	39,643,012	36,166,623	3,476,389
Overtime	123,500	618,969	105,693	513,276
Operating expenses	212,716,226	149,623,133	88,548,628	61,074,505
Conference fees and travel	918,519	1,073,554	325,996	747,558
Professional fees and services	15,167,841	26,613,794	19,385,361	7,228,433
Grants and aid	15,246,569	100,956,992	68,380,591	32,576,401
Refunds and reimbursements	28,813	24,813	7,811	17,002
Capital outlay	1,625,900	8,265,307	1,531,518	6,733,789
Donated local health unit facility cost			9,761,543	(9,761,543)
Vaccines donated by the Centers for Disease Control and Prevention			39,460,814	(39,460,814)
TOTAL EXPENDITURES	407,120,505	447,934,329	369,933,306	78,001,023
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(113,384,854)	(154,198,678)	(91,703,249)	62,495,429

DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACUTAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Interagency transfers:				
General revenue distribution	\$ 84,758,459	\$ 84,758,459	\$ 84,580,236	\$ (178,223)
Tobacco settlement distribution	13,144,397	13,144,397	17,079,753	3,935,356
Other, net	(2,019,545)	(2,019,545)	1,948,810	3,968,355
Transfers in due to Transformation Act			30,934,131	30,934,131
TOTAL OTHER FINANCING SOURCES (USES)	<u>95,883,311</u>	<u>95,883,311</u>	<u>134,542,930</u>	<u>38,659,619</u>
NET CHANGE IN FUND BALANCE	(17,501,543)	(58,315,367)	42,839,681	101,155,048
FUND BALANCE - JULY 1	<u>109,573,394</u>	<u>109,573,394</u>	<u>109,573,394</u>	
FUND BALANCE - JUNE 30	<u>\$ 92,071,851</u>	<u>\$ 51,258,027</u>	<u>\$ 152,413,075</u>	<u>\$ 101,155,048</u>

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

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

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

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

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

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

B. Basis of Presentation – Fund Accounting

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

Governmental Funds

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

C. Basis of Accounting

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

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Cash and Cash Equivalents

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

E. Deposits and Investments

State Board of Finance Policies

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

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

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

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

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling \$9,178,141, \$145,520,280, and \$3,156,214, 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, 2020, none of the Agency's bank balance of \$12,322,213 was exposed to custodial credit risk.

Investments

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

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Deposits and Investments (continued)

Investments (continued)

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

The Agency had the following recurring fair value measurements as of June 30, 2020:

<u>Investment Type</u>	<u>Valuation Method</u>	<u>Amount</u>
State Treasury money management trust fund	Level 1	\$ 2,493,271

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

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

As of June 30, 2020, the Agency had the following investment balances and segmented maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money management trust fund	\$ 2,493,271	\$ 2,493,271			

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency’s exposure to credit risk as of June 30, 2020, was as follows:

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Deposits and Investments (continued)

Investments (continued)

Rating	Fair Value
Unrated	\$ 2,493,271

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, 2020, none of the Agency’s investment balance was exposed to custodial credit risk.

F. Interfund Balances and Transfers

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

G. Inventories

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

H. Prepaid Expenses

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

I. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

J. Fund Equity

Fund Balance

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

DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (continued)

J. Fund Equity (continued)

Fund Balance (continued)

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

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

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

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

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

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

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

K. Budgetary Data

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

NOTE 2: Subsequent Event

A. Effects of Coronavirus Disease 2019

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

DEPARTMENT OF HEALTH
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2020
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2020	2019	2018	2017	2016
GENERAL FUND					
Total Assets	\$ 182,835,331	\$ 123,045,571	\$ 114,690,251	\$ 99,173,633	\$ 85,156,223
Total Liabilities	25,949,938	12,377,459	11,711,447	11,258,539	9,070,736
Total Deferred Inflow s of Resources	4,472,318	1,094,718	2,816,366	5,899,221	4,322,891
Total Fund Equity	152,413,075	109,573,394	100,162,438	82,015,873	71,762,596
Net Revenues	278,230,057	251,608,012	261,867,340	256,790,282	287,970,555
Total Expenditures	369,933,306	336,845,556	345,643,996	350,581,336	384,719,331
Total Other Financing Sources (Uses)	134,542,930	94,648,500	101,923,221	104,044,331	101,034,121
AGENCY FUNDS					
Total Assets			10,000	10,000	10,000
Total Liabilities			10,000	10,000	10,000

DEPARTMENT OF HEALTH
 FINANCIAL INFORMATION BY BUSINESS AREA
 FOR THE YEAR ENDED JUNE 30, 2020
 (UNAUDITED)

Schedule 2

Board/Commission/Division	Business Area	Assets	Liabilities & Deferred Inflows	Revenues	Expenditures	Other Financing Sources/(Uses)
Acupuncture And Related Techniques, Arkansas State Board of	0290	\$ 16,342	\$ 7,416	\$ 11,809	\$ 9,058	
Arkansas Department of Health	0645	140,257,300	21,556,472	265,430,656	356,036,036	\$ 109,425,442
Arkansas Minority Health Commission	0319	4,470,541	52,617	32,754	1,154,891	(2,051,501)
Arkansas Spinal Cord Commission	0295	241,827	107,497	3,379	2,123,718	(2,108,751)
Arkansas Tobacco Settlement Commission	0334	7,041,226	2,209		255,488	(2,201,110)
Athletic Training, Arkansas State Board of	0208	200,663	10,151	26,173	7,784	
Chiropractic Examiners, Arkansas State Board of	0265	63,956	78,942	196,697	131,099	14
Dental Examiners, Arkansas State Board of	0268	2,818,067	502,682	608,594	279,605	7,127
Department of Health (cabinet)	9907		13,599		291,144	31,211,676
Dietetics Licensing Board	0270	261,240	21,929	52,553	34,864	
Dispensing Opticians, Arkansas Board of	0279	262,097	23,200	45,469	32,460	(112)
Examiners in Counseling, Arkansas State Board of	0228	1,061,905	494,390	470,202	397,464	168
Examiners in Speech-Language Pathology and Audiology, Arkansas State Board of	0292	1,932,169	91,888	349,898	74,754	(63,604)
Examiners of Alcoholism and Drug Abuse Counselors, Arkansas State Board of	0204	43,952	30,698	22,130	23,587	
Health Services Permit Agency	0665	31,256	42,389	45,028	446,208	406,424
Hearing Instrument Dispensers, Arkansas Board of	0271	97,986	11,504	30,303	24,177	(190)
Medical Board, Arkansas State	0274	10,034,105	1,459,420	4,638,907	3,123,182	(45,486)
Nursing, Arkansas State Board of	0277	7,152,239	3,695,243	3,552,553	3,031,649	(2,108)
Optometry, Arkansas State Board of	0280	339,973	82,006	165,917	162,208	(1,297)
Pharmacy, Arkansas State Board of	0283	3,309,884	1,632,708	1,865,968	1,764,722	(114)
Physical Therapy, Arkansas State Board of	0246	1,295,502	194,349	228,481	182,150	(4,778)
Podiatric Medicine, Arkansas State Board of	0286	235,499	6,925	13,221	1,986	
Psychology Board, Arkansas	0289	943,450	183,253	255,918	180,240	(28,915)
Social Work Licensing Board	0254	724,152	120,769	183,447	164,832	45
Totals		<u>\$ 182,835,331</u>	<u>\$ 30,422,256</u>	<u>\$ 278,230,057</u>	<u>\$ 369,933,306</u>	<u>\$ 134,542,930</u>

DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2020
(UNAUDITED)

A. Capital Assets

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

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

Capital assets activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions through Transformation	Additions	Retirements	Ending Balance
Governmental activities:					
Land	\$ 358,040				\$ 358,040
Improvements	134,681				134,681
Buildings	44,816,551	\$ 184,052			45,000,603
Equipment	22,857,835	2,797,126	\$ 1,987,056	\$ 1,713,521	25,928,496
Intangibles	3,718,277	458,474			4,176,751
Total governmental activities	<u>\$ 71,885,384</u>	<u>\$ 3,439,652</u>	<u>\$ 1,987,056</u>	<u>\$ 1,713,521</u>	<u>\$ 75,598,571</u>

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

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

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, 2020, 2019, and 2018, were \$ 16.2 million, \$ 14.8 million, and \$ 14.1 million, respectively, equal to the required contributions for each year.

DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2020
(UNAUDITED)

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Transformation and Shared Services – Employee Benefits Division (DTSS-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DTSS-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DTSS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DTSS-EBD is included in the State of Arkansas's Comprehensive Annual Financial Report (CAFR), 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, 1509 West Seventh Street, Suite 403, Little Rock, Arkansas 72201 or by calling 501-682-1675.

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 \$450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

D. Compensated Absences – Employee Leave

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

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

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2020 and 2019, amounted to \$11.2 million and \$9.5 million, respectively. The net changes to compensated absences payable during the year ended June 30, 2020, amounted to \$1.7 million.