

ARKANSAS DEPARTMENT OF HEALTH

Annual Financial Report

June 30, 2018



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Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Department of Health
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Arkansas Department of Health, a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Arkansas Department of Health as of June 30, 2018, the changes in financial position, 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 Arkansas 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 and the aggregate remaining fund information of the State that is attributable to the transactions of the Arkansas Department of Health. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018, 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.

Other Matters

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 Arkansas 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 Arkansas Department of Health individually. Our opinions on the departmental financial statements are not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arkansas Department of Health's departmental financial statements. The Schedule of Selected Information 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 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 May 30, 2019, on our consideration of the Arkansas 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 Arkansas 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 Arkansas 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
May 30, 2019
SA1764518

Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
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

Arkansas 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 and the aggregate remaining fund information of the Arkansas Department of Health (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Health's departmental financial statements, and have issued our report thereon dated May 30, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-1 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-2 to be a significant deficiency.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SCHEDULE OF FINDINGS AND RESPONSES

Material Weakness:

2018-1 Procedures performed to test the June 30, 2018, inventories balance totaling \$19.7 million revealed material weaknesses in the Agency's internal controls. Department of Finance and Administration year-end closing instructions require year-end inventory counts to determine the proper year-end balance; however, the Agency did not perform inventory counts for HIV/STD prescription medications totaling \$7.9 million and bioterrorism emergency preparedness supplies totaling \$83,057. In addition, four of the Agency's 96 clinics were selected for testing, and the inventory records for all four included errors totaling \$6,031 (net). Failure to properly design, implement, and maintain internal controls increases the risk that material misstatements due to fraud or error will not be detected.

We recommend the Agency strengthen internal controls over inventory by maintaining accurate, perpetual subsidiary records that include an audit trail and by performing a complete year-end count of all inventory to determine the proper year-end balance.

Management Response: *To strengthen internal controls over the Department's overall inventory, the Arkansas Department of Health (ADH) Compliance Section will meet with each Center ADMO (Associate Director for Management and Operations) to review, design, and implement improved continuous inventory processes. A complete year-end counting methodology will be included in the design. The target date for implementation of all enhanced processes is January 1, 2020.*

To address the finding regarding HIV/STD prescription medications, the ADH AIDS Drug Assistance Program (ADAP) and Ryan White Part B Program will implement the following:

- *A current count of all ADAP medications will be maintained in an electronic format (Excel) with the Ryan White Program Manager.*
- *An audit of all inventory will be conducted once a quarter, and program officials will sign documentation attesting that results are factual and complete.*
 - *Documentation of the current stockpile inventory list and signature sheets will be available upon request.*

Regarding the finding concerning bioterrorism emergency preparedness supplies:

- *On June 7, 2019, all PHP (Public Health Preparedness) coordinators in each region were reminded to conduct a year end bioterrorism inventory in each of the SNS (Strategic National Stockpile) Sheds by June 28, 2019.*
- *Subsequently, a year-end audit will be conducted annually on the last business day of the state fiscal year.*

Significant Deficiency:

2018-2 A review of eight employees receiving mileage reimbursements totaling \$90,410 during fiscal year 2018 revealed that one employee was overpaid \$664. This employee was reimbursed \$11,159 for driving 26,569 miles to provide computer and technical support to Agency staff at various locations. However, the employee was always reimbursed mileage between the destination and the official station, even when the employee's residence was closer to the destination and when the employee left from and/or returned to the residence. Reimbursements for these miles were not in compliance with state travel regulations and resulted in the employee being overpaid for 1,582 miles.

We recommend the Agency provide additional training to employees who travel and approve travel and hold them accountable for compliance with state regulations.

Management Response: *ADH will provide additional training on state travel regulations to employees who travel and employees who approve travel.*

- *Beginning in July 2019, all ADH employees will be instructed biannually to review the Agency's travel policy by means of an email that will include a link to training material.*

To address the finding regarding an employee repeatedly being reimbursed for mileage from their official station rather than their home when the home was closer.

- *Effective immediately, ADH will require that an explanation is given within the "Mileage Description" field of the electronic travel reimbursement (TR-1) when the shortest distance is not being claimed whether leaving from the traveler's residence or official station.*
 - *If an explanation for not claiming the shortest distance is not included in the TR-1, the reimbursement request will not be processed and it will be returned to the traveler and their supervisor.*

Agency's Response to Findings

The Agency's responses to the findings identified in our audit are described above. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
May 30, 2019

ARKANSAS DEPARTMENT OF HEALTH
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2018

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	\$ 80,703,796
Investments	166,256
Accounts receivable (net):	
Health care services	1,891,449
Infant formula rebates	3,767,315
Disposal of operations escrow	1,950,000
Miscellaneous fees and services	878,364
Interest	10,274
Due from other governments	21,878
Due from other state agencies	2,472,213
Prepaid items	3,141,404
Inventories	19,687,302
 TOTAL ASSETS	 \$ 114,690,251
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable - vendors	\$ 5,558,611
Accrued payroll	4,435,568
Due to other governments	204,388
Due to other state agencies	1,512,880
Total Liabilities	11,711,447
Deferred inflows of resources:	
Related to revenues	2,816,366
Fund balance:	
Nonspendable for:	
Prepaid items	3,141,404
Inventories	19,687,302
Restricted for:	
Debt service	14,408
Program requirements	17,803,839
Committed for:	
Tobacco settlement	8,990,372
Program requirements	49,576,900
Assigned for capital projects	236,827
Unassigned	711,386
Total Fund Balance	100,162,438
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 \$ 114,690,251

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

ARKANSAS DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

	General Fund
REVENUES	
Cigarette tax	\$ 3,231,268
Federal grants and reimbursements	164,310,192
Health care services	32,258,648
Licenses and fees	21,263,534
In-kind donations	9,542,341
Infant formula rebates	23,275,137
Other sales, refunds, and reimbursements	8,355,598
TOTAL REVENUES	262,236,718
Less: State Treasury service charge	369,378
NET REVENUES	261,867,340
EXPENDITURES	
Personal services - payroll	96,793,196
Employee benefits - matching	33,283,348
Communication and transportation of commodities	4,375,985
Printing and advertising	1,022,427
Repairing and servicing	5,751,217
Utilities and rent	11,548,632
Travel and subsistence	3,004,788
Professional services	25,999,468
Insurance and bonds	211,961
Other expenses and services	2,035,139
Commodities, materials, and supplies	80,273,908
Assistance, grants, and aid	76,105,004
Refunds, taxes, and claims	239,899
Debt service:	
Principal	2,576,924
Interest	78,163
Low-value asset purchases	516,051
Capital outlay	1,827,886
TOTAL EXPENDITURES	345,643,996
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(83,776,656)

ARKANSAS DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

	General Fund
OTHER FINANCING SOURCES (USES)	
Net gain on the disposal of operations	\$ 1,950,000
Interagency transfers in (out):	
General revenue allocation	79,956,479
Tobacco settlement distribution	14,156,969
Federal funding	6,765,605
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)	(1,292,176)
Other, net	192,487
Prior-year warrants outlawed and cancelled	10,225
Prior-year refunds to expenditures	183,632
TOTAL OTHER FINANCING SOURCES (USES)	101,923,221
NET CHANGE IN FUND BALANCE	18,146,565
FUND BALANCE - JULY 1	82,015,873
FUND BALANCE - JUNE 30	\$ 100,162,438

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

ARKANSAS DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Federal grants and reimbursements	\$ 163,060,264	\$ 163,060,264	\$ 164,310,192	\$ 1,249,928
Special revenues	23,516,045	23,516,045	18,502,590	(5,013,455)
Third-party	23,932,904	23,932,904	32,258,648	8,325,744
Program support	46,510,689	46,510,689	23,890,151	(22,620,538)
Manufacturer rebates	23,020,685	23,020,685	23,275,137	254,452
TOTAL REVENUES	280,040,587	280,040,587	262,236,718	(17,803,869)
Less: State Treasury service charge			369,378	(369,378)
NET REVENUES	280,040,587	280,040,587	261,867,340	(18,173,247)
EXPENDITURES				
Regular salaries	100,967,210	105,295,727	95,845,039	9,450,688
Extra help	2,211,737	1,476,287	915,036	561,251
Personal services matching	35,686,107	36,210,307	33,283,348	2,926,959
Overtime	111,500	41,927	33,121	8,806
Operating expenses	126,901,825	97,490,935	69,452,337	28,038,598
Conference fees and travel	1,318,565	1,475,155	560,281	914,874
Professional fees and services	32,342,811	30,960,901	17,921,504	13,039,397
Grants and aid	95,662,971	112,551,220	75,974,836	36,576,384
Refunds and reimbursements	11,613	11,613	7,225	4,388
Capital outlay	13,489,837	13,331,121	1,827,886	11,503,235
Donated local health unit facility cost			9,117,341	(9,117,341)
Vaccines donated by the Centers for Disease Control and Prevention			40,706,042	(40,706,042)
TOTAL EXPENDITURES	408,704,176	398,845,193	345,643,996	53,201,197
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(128,663,589)	(118,804,606)	(83,776,656)	35,027,950

ARKANSAS DEPARTMENT OF HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Net gain on the disposal of operations			\$ 1,950,000	\$ 1,950,000
Interagency transfers in (out):				
General revenue allocation	\$ 79,491,993	\$ 79,491,993	79,956,479	464,486
Tobacco settlement distribution	11,742,087	11,742,087	14,156,969	2,414,882
Federal funding			6,765,605	6,765,605
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)			(1,292,176)	(1,292,176)
Other, net	(625,456)	(625,456)	192,487	817,943
Prior-year warrants outlawed and cancelled			10,225	10,225
Prior-year refunds to expenditures			183,632	183,632
TOTAL OTHER FINANCING SOURCES (USES)	90,608,624	90,608,624	101,923,221	11,314,597
NET CHANGE IN FUND BALANCES	(38,054,965)	(28,195,982)	18,146,565	46,342,547
FUND BALANCE - JULY 1	82,015,873	82,015,873	82,015,873	
FUND BALANCE - JUNE 30	\$ 43,960,908	\$ 53,819,891	\$ 100,162,438	\$ 46,342,547

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

ARKANSAS DEPARTMENT OF HEALTH
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2018

Exhibit D

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 10,000</u>
LIABILITIES	
Due to third parties	<u>\$ 10,000</u>

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

ARKANSAS DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The Agency 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 a 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.

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 are recognized in the accompanying financial statements.

Governmental Funds

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

Fiduciary Funds

Trust and Agency Funds – Funds 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 may include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Agency Funds. The specific activity accounted for at this Agency includes the following:

Agency Funds – Funds that are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. At June 30, 2018, the balance held in custody represents a certified cashier's check held to ensure full performance from the contractor assisting with the eWIC project, an off-line electronic benefits transfer (EBT) system allowing participants in the Woman, Infants, and Children (WIC) program to use an EBT smart card to purchase approved foods.

ARKANSAS DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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. Agency funds represent the only fiduciary fund type, and financial statements are presented using the full accrual basis of accounting, and no measurement focus is used since they are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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 investment 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 \$1.97 million, \$78.3 million, and \$166,256, 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.

ARKANSAS DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Deposits and Investments (continued)

Deposits (continued)

Custodial Credit Risk – 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, 2018, none of the Agency's bank balance of \$1.97 million 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, as applicable.

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. Thus, 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.

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.

ARKANSAS DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

J. Fund Equity (continued)

Fund Balance (continued)

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

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

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

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

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

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: Disposal of Operations

On August 1, 2016, the Agency sold its In-Home Services program to Kindred Healthcare, Inc. (Kindred), for \$39 million. The \$31.7 million net gain recognized on the sale and related note disclosure were reported for the year ended June 30, 2017, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 69.

The acquisition agreement required \$3.9 million of the sale proceeds to be held in escrow to protect Kindred against possible losses, defined in the agreement as contribution adjustment events. The Agency was eligible to receive the balance held in escrow, less any contribution adjustment events, in two installments paid within 24 months of the closing date of the sale. On August 11, 2017, the Agency recorded the deposit of the first \$1.95 million installment. The installment was included in the net gain recognized on the sale for the year ended June 30, 2017, since it was received soon enough after year-end to be considered measureable and available (i.e., within 45 days). The second and final \$1.95 million installment was received on August 2, 2018, and recognized as a special item (other financing source) in the financial statements for the year ended June 30, 2018.

ARKANSAS DEPARTMENT OF HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3: Subsequent Events

Act 910 of the Regular Session of 2019, known as the Transformation and Efficiencies Act of 2019, authorizes a reduction in the number of executive branch cabinet-level departments from 42 to 15 effective July 1, 2019. The Act establishes the Department of Health as a cabinet-level department and authorizes the transfer of the administrative functions of various state entities to the Department.

ARKANSAS DEPARTMENT OF HEALTH
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2018
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2018	2017	2016	2015	2014
GENERAL FUND					
Total Assets	\$ 114,690,251	\$ 99,173,633	\$ 85,156,223	\$ 99,634,238	\$ 95,275,023
Total Liabilities	11,711,447	11,258,539	9,070,736	10,357,189	11,991,389
Total Deferred Inflows of Resources	2,816,366	5,899,221	4,322,891	21,799,798	10,255,477
Total Fund Equity	100,162,438	82,015,873	71,762,596	67,477,251	73,028,157
Net Revenues	261,867,340	256,790,282	287,970,555	330,845,609	313,747,153
Total Expenditures	345,643,996	350,581,336	384,719,331	441,374,042	421,590,039
Total Other Financing Sources (Uses)	101,923,221	104,044,331	101,034,121	104,977,527	107,521,225
AGENCY FUNDS					
Total Assets	10,000	10,000	10,000	10,000	12,000
Total Liabilities	10,000	10,000	10,000	10,000	12,000

ARKANSAS DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2018
(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. Estimated useful lives generally assigned are as follows:

<u>Assets:</u>	<u>Years</u>
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, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 358,040			\$ 358,040
Improvements	134,681			134,681
Buildings	44,391,551	\$ 425,000		44,816,551
Equipment	22,547,642	1,490,990	\$ 1,423,013	22,615,619
Intangibles	3,610,623	56,298		3,666,921
Total governmental activities	<u>\$ 71,042,537</u>	<u>\$ 1,972,288</u>	<u>\$ 1,423,013</u>	<u>\$ 71,591,812</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 14.75% 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, 2018, 2017, and 2016, were \$14.1 million, \$13.2 million, and \$15.6 million, respectively, equal to the required contributions for each year.

ARKANSAS DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Finance and Administration – Employee Benefits Division (DFA-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DFA-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 DFA-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DFA-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 Finance and Administration, 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 DFA-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, 2018 and 2017, amounted to \$9.16 million and \$8.75 million, respectively. The net changes to compensated absences payable during the year ended June 30, 2018, amounted to \$417,133.

E. Long-Term Liabilities – Notes Payable

Principal, interest, and fees are recorded as debt service expenditures when due. The face amount of new debt is recorded as an other financing source, and any premium, discount, and/or issuance cost is recognized. Premiums and discounts are recorded as other financing sources and uses, respectively. Issuance costs are recorded as debt service expenditures. In accordance with current accounting principles generally accepted in the United States of America, the liability; deferred premiums and/or discounts; and amortization of deferred premiums and/or discounts, are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements.

Changes in long-term liabilities for notes payable for the year ended June 30, 2018, are summarized as follows:

ARKANSAS DEPARTMENT OF HEALTH
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

E. Long-Term Liabilities – Notes Payable (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Arkansas Development Finance Authority	\$ 3,915,000		\$ 2,525,000	\$ 1,390,000	\$ 1,315,000
University of Arkansas for Medical Sciences	51,924		51,924		
Total governmental activities	<u>\$ 3,966,924</u>	<u>\$ 0</u>	<u>\$ 2,576,924</u>	<u>\$ 1,390,000</u>	<u>\$ 1,315,000</u>

Details regarding notes payable at June 30, 2018, are as follows:

Arkansas Development Finance Authority

On September 1, 2014, the Agency entered into a new loan agreement with the Arkansas Development Finance Authority (ADFA) to finance \$9.3 million in Series 2014 Revenue Refunding Bonds. The bonds bear interest at rates ranging from 1% to 3%, are financed using certain vital records fees collected by the Agency in accordance with Ark. Code Ann. § 20-7-407, and are scheduled to mature December 1, 2021. However, fees collected in addition to the debt service requirements must be used to redeem bonds prior to their maturity, and ADFA expects to retire the bonds earlier than scheduled. Series 2003 Construction Revenue Bonds were refunded using proceeds from the Series 2014 bonds and monies deposited in the Series 2003 debt service bond fund. The Series 2003 bonds were issued by ADFA on December 1, 2003, for the construction of the Agency's public health laboratory building and were also financed through a loan agreement with the Agency.

The minimum future amounts required to pay principal and interest on the loan at June 30, 2018, are summarized as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,315,000	\$ 21,150	\$ 1,336,150
2020	75,000	713	75,713
Totals	<u>\$ 1,390,000</u>	<u>\$ 21,863</u>	<u>\$ 1,411,863</u>

University of Arkansas for Medical Sciences

Effective July 1, 2008, the Agency entered into a joint operating agreement with the Board of Trustees of the University of Arkansas for Medical Sciences (UAMS) and the Arkansas State Hospital, which is under the direction of the Department of Human Services – Division of Behavioral Health Services, concerning the construction, operation, and maintenance of the West Central Energy Plant. The agreement replaced an earlier-dated Memorandum of Understanding and obligated the Agency to make principal and interest payments to UAMS for a period of 120 months. The original principal amount and interest rate were \$2.6 million and 3.94%, respectively. Payments began in September 2007 and were due on the first of each month until the obligation was paid in full during fiscal year 2018. The Agency maintains 8% ownership of the Plant and receives utility services at a reduced rate.