DEPARTMENT OF HUMAN SERVICES

Annual Financial Report

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF HUMAN SERVICES
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Department of Human Services
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Department of Human Services, a department of Arkansas state government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department of Human Services'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 financial statement presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund, and the aggregate remaining fund information of the Department of Human Services as of June 30, 2014, changes in financial position thereof, and 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 Human Services are intended to present the financial position, changes in financial position, and budgetary comparisons of only that portion of the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of Human Services. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014, changes in its financial position, and budgetary comparisons for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in *Note 1 (I)* to the financial statements, in fiscal year 2014 the State adopted new accounting guidance, Governmental Accounting Standards Board Statement no. 65, *Items Previously Reported as Assets and Liabilities*. 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 Department of Human Services are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Department of Human Services individually. Our 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 Department of Human Services's departmental financial statements. The Schedule of Selected Information is presented for purposes of additional analysis and is not a required part of the departmental financial statements.

The Schedule of Selected Information has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2015, on our consideration of the Department of Human Services's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Human Services's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger Norman

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

Little Rock, Arkansas
August 27, 2015
SA1971014

Arkansas

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LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Department of Human Services
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the major fund and the aggregate remaining fund information of the Department of Human Services (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department of Human Services's departmental financial statements, and have issued our report thereon dated August 27, 2015.

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.

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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies (*2014-1 and 2014-2).*

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

2014-1 The **Office of Financial Management** had the following internal control deficiencies related to bank accounts:

- Review of institutional accounts revealed the following exceptions for the Arkansas State Hospital and Conway Human Development Center:

  Arkansas State Hospital Patient Money Fund:
  1) Receipts were not maintained for all items of income. The Agency was unable to provide receipts for deposits of $1,118.
  2) The Agency did not follow established procedures for client expenses.

  Conway Human Development Center:
  1) The Agency failed to issue receipts sequentially for the Canteen and Incidental Accounts. Receipts were issued for these two accounts from the same receipt batch.
  2) No receipts were issued for deposits totaling $36,499 for the Children's Colony Petty Cash Fund and the Residents' Petty Cash Fund accounts.

- Review of local cash assistance county accounts revealed that Cleveland and Lincoln Counties failed to issue receipts for monies totaling $1,137.

The ability to properly safeguard and account for these assets has been jeopardized as a result of inadequate controls.

We recommend the Agency review and follow the required procedures as set out in the DHS Administrative Procedures Manual and the State Financial Management Guide.

2014-2 Review of capital assets revealed that the **Office of Financial Management** had inadequate management oversight and internal controls over capital assets, which contributed to the following deficiencies:

- The Agency failed to capitalize cost associated with the Eligibility and Enrollment Framework system totaling $46,786,124 for fiscal years 2014 and 2013.
- 15 capital equipment items, valued at $107,700, out of a sample of 580 capital equipment items could not be located for observation.
- The Agency did not tag all capital assets adequately to ensure proper identification. Five items valued at $255,758 were located but could not be matched to records due to inadequate tagging.
- 47 assets valued at $49,983 were not retired timely.

Strengthening of internal controls and adequate management oversight would ensure proper accountability of capital assets.

We recommend the Agency strengthen internal controls and management oversight of capital assets to ensure proper accountability of these items.

Management personnel responded that they concur with these findings and provided the responses below:

Arkansas State Hospital Patient Money Fund

1. Inservice/Education – Provide the Patient Money Fund procedures to all employees that may work with PMFs requiring employee sign off with emphasis on reconciliation of receipts, expenditures, and cash balances daily.
2. Establish a consistent cut off time for receipts and disbursements so the PMF detail can be reconciled daily. All funds will be receipted no later than noon.
3. Expenditures will be documented with original requests, expense receipts, and signed copies of appropriate patient chart documentation properly approved.

<u>Arkansas State Hospital Patient Money Fund</u> (Continued)

4. Any exceptions will require immediate written supervisor <u>and</u> manager notification. Periodic spot checks will be made to ensure compliance.

5. Reconciliation – Detailed A/R report will be reconciled by the PMF manager with the bank statement monthly and approved by the Comptroller.

<u>Conway Human Development Center</u>

1. Conway Human Development Center has implemented the process of issuing two separate cash receipt batch reports for the two accounts.

2. DDS/CHDC admits that the department approved cash receipt logs were not utilized. CHDC has implemented the use of the approved, pre-numbered cash receipt provided by the Department of Human Services.

3. In addition to the above noted corrective action measures, a review of the DHS Administrative Procedures Manual, Chapter 201 and Cash funds has been conducted with staff to ensure proper procedures are followed.

<u>Cleveland and Lincoln Counties</u>

1. The staff handling these cash accounts will be counseled/reminded of proper procedures, and the Area Director will periodically conduct reviews of these accounts for compliance.

<u>Office of Financial Management</u>

1. On a quarterly basis inquire of Division CFOs and the CIO - Office of Systems and Technology concerning any new internally-generated software. Also, each month and at fiscal year-end, review expenditure general ledger accounts that would be used to record software purchases to ensure that any software items purchased that meet the threshold for capitalization will be capitalized.

2. DHS Asset Manager has worked closely with each Division Manager to investigate these missing assets. For these assets with findings, paperwork was not filed in a timely manner, investigations are on-going, or the asset has been tagged according to DHS policy. Also, in an effort to reduce the number of findings due to lack of following protocol, the DHS Asset Manager has conducted training classes regarding the appropriate procedures for acquisition, transferring, and disposal of DHS assets for all Divisional Asset Managers and staff. This training, along with a Division performing a total review and denoting the day of visual inspection within the Asset master record for all DHS assets while conducting the FY2015 Certification of Assets, will strengthen the tracking of all DHS assets.

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Jon Moore

Jon Moore, CPA, CFE, CFF
Deputy Legislative Auditor

Little Rock, Arkansas
August 27, 2015

DEPARTMENT OF HUMAN SERVICES
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2014

Exhibit A

		General Fund
ASSETS		
Cash and cash equivalents	$	331,743,278
Investments		6,048,514
Receivable, net:		
Medicaid		221,973,853
Customer		62,680,538
Federal		22,420,914
Interest		2,212
Other		5,759,287
Prepaid items		1,277,198
Inventories		6,770,928
TOTAL ASSETS	$	658,676,722
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Medicaid payable	$	358,185,036
Accounts payable - vendors		25,418,326
Accrued payroll		7,841,204
Grants payable		4,852,504
Due to other governments		3,607,350
Unearned grant revenue		12,210,549
Due to other state agencies		11,582,970
Total Liabilities		423,697,939
Deferred inflows of resources:		
Related to revenues		26,532,970
Fund balance:		
Nonspendable for:		
Prepaid items		1,277,198
Inventories		6,770,928
Committed for tobacco settlement		42,825,632
Assigned for:		
Capital projects		72,037,050
Other		44,972,511
Unassigned		40,562,494
Total Fund Balance		208,445,813
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$	658,676,722

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

DEPARTMENT OF HUMAN SERVICES

Exhibit B

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

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund
REVENUES	
Federal grants and reimbursements	$ 4,720,143,846
Grants and reimbursements	43,619,826
Medicaid drug rebates	163,367,163
Institutional reimbursements	179,890,939
Soft drink tax	43,892,669
Quality assurance fees	75,022,408
Hospital assessment fees	65,320,693
Interest income	155,089
Other sales, refunds, and reimbursements	9,475,994
TOTAL REVENUES	5,300,888,627
Less: State Treasury service charge	90,219
NET REVENUES	5,300,798,408
EXPENDITURES	
Personal services - payroll	277,882,053
Employee benefits - matching	103,119,224
Communication and transportation of commodities	15,155,934
Printing and advertising	815,976
Repairing and servicing	11,301,070
Utilities and rent	17,234,466
Travel and subsistence	8,742,284
Professional services	58,211,112
Insurance and bonds	578,586
Other expenses and services	333,306
Commodities, materials, and supplies	18,336,995
Assistance, grants, and aids	6,198,158,517
Refunds, taxes, and claims	1,418,354
Low value asset purchases	2,859,713
Debt service:	
Principal	2,288,502
Interest	1,593,907
Capital outlay	43,556,416
TOTAL EXPENDITURES	6,761,586,415
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,460,788,007)

DEPARTMENT OF HUMAN SERVICES

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue allocation	$ 1,226,609,316
General improvement funding	132,339,853
Federal funding	122,786,401
Other	26,031,359
Lease proceeds	5,396,840
TOTAL OTHER FINANCING SOURCES (USES)	1,513,163,769
NET CHANGE IN FUND BALANCE	52,375,762
FUND BALANCE - JULY 1	156,070,051
FUND BALANCE - JUNE 30	$ 208,445,813

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

DEPARTMENT OF HUMAN SERVICES

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund			
	Budgeted Amount (1)			
	Original	Final	Actual	
REVENUES				
Federal grants and reimbursements	$ 4,321,927,604	$ 4,321,927,604	$ 4,037,313,137	
Supplemental Nutrition Assistance Program			682,830,709	(2)
Grants and reimbursements	7,748,900	7,748,900	43,619,826	
Medicaid drug rebates	36,184,279	36,184,279	163,367,163	
Institutional reimbursements	352,420,062	352,420,062	179,890,939	
Soft drink tax	19,838,751	19,838,751	43,892,669	
Quality assurance fees	77,023,589	77,023,589	75,022,408	
Hospital assessment fees	67,158,462	67,158,462	65,320,693	
Interest income			155,089	
Other sales, refunds, and reimbursements	7,267,988	7,267,988	9,475,994	
TOTAL REVENUES	4,889,569,635	4,889,569,635	5,300,888,627	
Less: State Treasury service charge			90,219	
NET REVENUES	4,889,569,635	4,889,569,635	5,300,798,408	
EXPENDITURES				
Regular salaries	291,880,411	269,203,218	265,549,604	
Extra help	10,220,011	8,502,172	7,790,847	
Operating expenses	127,297,811	117,535,294	96,907,510	
Personal services matching	111,734,292	104,185,600	103,119,224	
Grants and aids	6,255,673,349	6,097,575,014	5,553,303,902	
Supplemental Nutrition Assistance Program			682,830,709	(2)
Construction	17,523,900	11,606,938		
Overtime	6,596,287	4,577,766	4,541,602	
Extra salaries	27,000	27,000		
Conference fees and travel	1,048,449	963,978	568,264	
Professional fees and services	56,823,727	57,355,262	45,451,865	
Capital outlay	3,896,700	2,540,782	1,422,888	
Reimbursements	500,000	500,000	100,000	
Marketing and redistribution proceeds		22,573		
TOTAL EXPENDITURES	6,883,221,937	6,674,595,597	6,761,586,415	

DEPARTMENT OF HUMAN SERVICES

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund		
	Budgeted Amount (1)		
	Original	Final	Actual
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (1,993,652,302)	$ (1,785,025,962)	$ (1,460,788,007)
OTHER FINANCING SOURCES (USES)			
Interagency transfers in:			
General revenue allocation	1,225,081,725	1,225,081,725	1,226,609,316
General improvement funding	107,735,551	107,735,551	132,339,853
Federal funding			122,786,401
Other			26,031,359
Lease proceeds			5,396,840
TOTAL OTHER FINANCING SOURCES (USES)	1,332,817,276	1,332,817,276	1,513,163,769
NET CHANGE IN FUND BALANCE	(660,835,026)	(452,208,686)	52,375,762
FUND BALANCE - JULY 1	156,070,051	156,070,051	156,070,051
FUND BALANCE - JUNE 30	$ (504,764,975)	$ (296,138,635)	$ 208,445,813

(1) The State's budget is adopted in accordance with a statutory cash basis of accounting, which is not in accordance with Generally Accepted Accounting Principles (GAAP). Revenues and expenditures are reported on the modified accrual basis.

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

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

DEPARTMENT OF HUMAN SERVICES

Exhibit D

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS - AGENCY

JUNE 30, 2014

		Total
ASSETS		
Cash and cash equivalents	$	1,044,988
Investments, at fair value - certificates of deposits		1,235,198
Accounts receivable - accrued interest		160
TOTAL ASSETS	$	2,280,346
LIABILITIES		
Due to clients	$	2,280,346

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

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

A reorganization effort occurred under Act 164 of 1995 with the purpose of merging and renaming certain divisions and to create new divisions within the Department of Human Services. Also, Act 1132 of 1997 transferred the Arkansas Early Childhood Commission from the Department of Education to the Department of Human Services. The Agency currently consists of the following 10 divisions with responsibilities and programs assigned to them as determined by the Director of the Department of Human Services:

1. Division of Aging and Adult Services
2. Division of Youth Services
3. Division of Child Care and Early Childhood Education
4. Division of Volunteerism
5. Division of Services for the Blind
6. Division of Children and Family Services
7. Division of Behavioral Health Services
8. Division of Medical Services
9. Division of Developmental Disabilities
10. Division of County Operations

The following programs and services are provided by the Agency: aging and adult services, adult protective services, children and family services, child abuse and neglect services, services for youth involved with the juvenile system, developmental disabilities services, Medicaid, food stamps, transitional employment assistance, long-term care, mental health services, services for the blind and visually impaired, volunteer services, and alcohol and drug abuse prevention services.

B. Basis of Presentation – Fund Accounting

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

<u>Governmental Funds</u>

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

<u>Fiduciary Funds</u>

<u>Trust and Agency Funds</u> – Trust and Agency Funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Agency Funds. The specific activity accounted for at this Agency includes Agency fund accounts for assets held by the Agency as a custodial agent for clients under the care and supervision of the Agency.

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 Fiduciary Fund financial statements. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

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. 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 fair market value at the time received. 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:

Assets:	Years
Equipment	5-20
Buildings and building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Intangibles	4-99
Other capital assets	4-20

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 3,145,393		$ 16,180	$ 3,129,213
Improvements	6,173,518	$ 6,500	43,803	6,136,215
Buildings	212,740,038	5,666,773	3,135	218,403,676
Equipment	33,108,044	1,234,729	1,917,087	32,425,686
Low value equipment	21,815,358	2,755,536	3,783,084	20,787,810
Infrastructure	902,781	9,374		912,155
Assets under construction	1,427,816	50,444,450		51,872,266
Intangible assets	8,532,149	32,859	1,245	8,563,763
Total governmental activities	$ 287,845,097	$ 60,150,221	$ 5,764,534	$ 342,230,784

F. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling $13,269,437, $295,184,418, and $4,778,821, 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, 2014, none of the Agency's bank balance of $21,287,065 was exposed to custodial credit risk

Investments

Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value based on available quoted market prices. Nonparticipating contracts (certificates of deposit) and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Changes in the fair value of investments are recognized as revenue in the operating statements.

As of June 30, 2014, the Agency had the following investment balances and segmented maturities:

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Mutual funds	$ 2,504,892	$ 2,504,892	$ 0	$ 0	$ 0

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, 2014, is as follows:

Rating	Fair Value
AAA	
AA	
A	
BBB	
BB	
B	
Unrated	$ 2,504,892
Total	$ 2,504,892

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that investments may not be returned. None of the Agency's investments were exposed to custodial credit risk at June 30, 2014.

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. Pension Plan

Plan Description – The Agency contributes to the Arkansas Public Employees Retirement System (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 14.88% 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, 2014, 2013, and 2012 were $40,333,407, $38,918,789, and $36,115,408, respectively, equal to the required contributions for each year.

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. 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) 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.

A summary of the nature and purpose of each of these fund balance classifications as of June 30, 2014, is as follows:

	Nonspendable	Spendable Fund Balance		
	Fund Balance	Restricted	Committed	Assigned
Prepaid expenses	$ 1,277,198			
Inventories	6,770,928			
Capital projects				$ 72,037,050
Tobacco settlement			$ 42,825,632	
Other				44,972,511
Total	$ 8,048,126	$ 0	$ 42,825,632	$ 117,009,561

NOTE 1: Summary of Significant Accounting Policies (Continued)

L. 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.

M. 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, 2014 and 2013, amounted to $30,331,946 and $30,237,018, respectively. The net changes to compensated absences payable during the year ended June 30, 2014, amounted to $94,928.

NOTE 2: Capital Lease

The Agency has leased property which is accounted for as a capital lease. The long-term obligation for this lease is reported as a liability in the State's "Government-Wide" financial statements but is not reported as a liability in the governmental funds. The lease by category is as follows:

Class of Property	Asset Balance June 30, 2014
Buildings	$ 45,626,405

NOTE 2: Capital Lease (Continued)

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the minimum lease payments as of June 30, 2014:

Years Ending June 30,	Governmental Fund Types Lease Payments
2015	$ 3,189,002
2016	3,561,309
2017	3,577,096
2018	3,575,644
2019	3,571,959
2020-2024	16,504,814
2025-2029	14,829,104
2030-2034	13,179,509
Total Minimum Lease Payments	61,988,437
Amount representing interest	16,362,032
Present Value of Minimum Lease Payments	$ 45,626,405

DEPARTMENT OF HUMAN SERVICES
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2014
(Unaudited)

Schedule 1

	For the Year Ended June 30,				
	2014	2013	2012	2011	2010
General Fund					
Total Assets	$ 658,676,722	$ 543,995,854	$ 727,262,392	$ 943,708,886	$ 992,349,880
Total Liabilities	423,697,939	387,925,803	373,045,103	336,143,521	407,712,843
Deferred inflows of resources	26,532,970				
Total Fund Equity	208,445,813	156,070,051	354,217,289	607,565,365	584,637,037
Net Revenues	5,300,798,408	4,869,148,093	4,868,114,028	4,903,418,572	4,806,121,870
Total Expenditures	6,761,586,415	6,303,861,000	6,251,676,965	5,981,088,238	5,747,184,340
Total Other Financing Sources (Uses)	1,513,163,769	1,236,565,669	1,130,214,861	1,100,597,994	1,046,390,598
Aggregate Remaining Fund Information					
Total Assets	2,280,346	2,183,517	2,382,569	3,475,055	2,964,091
Total Liabilities	2,280,346	2,183,517	2,382,569	3,475,055	2,964,091