ADMINISTRATIVE OFFICE OF THE COURTS

Annual Financial Report

June 30, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE

ADMINISTRATIVE OFFICE OF THE COURTS
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FOR THE YEAR ENDED JUNE 30, 2022

Arkansas

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Senate Chair
Sen. John Payton
Senate Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

Administrative Office of the Courts
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the major fund of the Administrative Office of the Courts, an office of Arkansas state government, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Administrative Office of the Court's departmental financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the major of the Administrative Office of the Courts as of June 30, 2022, the changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the office, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As indicated above, the financial statements of the Administrative Office of the Courts are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the major fund of the State that is attributable to the transactions of the Administrative Office of the Courts. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2022, the changes in its financial position, and budgetary comparisons for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Administrative Office of the Courts 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 Administrative Office of the Courts individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

Management is responsible for the other information included in the report. The other information comprises the Schedule of Selected Information and Other General Information but does not include the departmental financial statements, required supplementary information, supplementary information, and our auditor's reports thereon. Our opinion on the departmental financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the departmental financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2023, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the effectiveness of the office'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 office'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
June 6, 2023
SA0202322

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

Administrative Office of the Courts
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund of the Administrative Office of the Courts (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 20, and the related notes to the financial statements, which collectively comprise the Administrative Office of the Court's departmental financial statements, and have issued our report thereon dated June 6, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2022-1 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described below in the Schedule of Findings and Responses as item 2022-1.

SCHEDULE OF FINDINGS AND RESPONSES

2022-1 Ark. Const. art. 5, § 29, states, "Except as provided in Arkansas Constitution, Article 19, § 31, no money shall be drawn from the treasury except in pursuance of specific appropriation made by law, the purpose of which shall be distinctly stated in the bill, and the maximum amount which may be drawn shall be specified in dollars and cents; and no appropriations made by the General Assembly after December 31, 2008, shall be for a longer period than one (1) fiscal year."

In addition, Ark. Const. art. 16, § 12, states, "Except as provided in Arkansas Constitution, Article 19, § 31, no money shall be paid out of the treasury until the same shall have been appropriated by law; and then only in accordance with said appropriation."

Also, Act 1008 of the 2021 Regular Session (Act 1008) appropriated funds to reimburse county jurors, to be payable from the County Juror Reimbursement fund, in section 21, and appropriated funds for professional fees of the Division of Dependency-Neglect Representation to be transferred from the State Administration of Justice Fund and payable from the State Central Services Fund, in section 10.

Although section 21 of Act 1008 originally allowed for $850,000 in juror reimbursements, inadequate transfers from the Administration of Justice Fund resulted in only $273,034, or 32%, of that amount being funded in state fiscal year 2022. Once that amount was materially expended, the Agency utilized the appropriation and funding afforded to the Division of Dependency-Neglect Representation for professional fees under section 10 of Act 1008 to make additional jury reimbursement payments. Fifty payments totaling $231,025 were coded as professional fees for the Division of Dependency-Neglect Representation but were actually jury reimbursements. Had the payments been appropriately coded as jury reimbursements, the final funded appropriation for jury reimbursements in the amount of $273,034 would have been exceeded by $230,751.

The Agency should not have used funds appropriated in Section 10 of Act 1008 for the Division of Dependency-Neglect Representation professional fees on reimbursing counties for juror costs under Section 21 of Act 1008. The funds were appropriated for one purpose but were used for another purpose, in violation of Ark. Const. art 16, § 12.

Finally, Ark. Code Ann. § 16-10-310(d)(1) provides the Agency with a solution if funds appropriated for county juror reimbursements runs out: "If required to help meet the commitments of the State Administration of Justice Fund and if funds are determined to be available, the Chief Fiscal Officer of the State may transfer a sum not to exceed four million dollars ($4,000,000) during any fiscal year from the Budget Stabilization Trust Fund to the State Administration of Justice Fund."

We recommend the Agency review and strengthen policies and procedures to ensure that expenditures are appropriately coded and are in accordance with Agency appropriations and the Arkansas Constitution.

Management personnel responded: *The AOC was appropriated $850,000 to reimburse counties for juror expenses. Due to a dramatic decrease in Administration of Justice Fund revenue, the AOC received only $273,034 in funding. However, total requests for reimbursement amounted to $503,785. To process the full amount requested from the counties of Arkansas, a larger appropriation of $230,751 from AOJ Funds would be necessary. Because of the limited amount of money in the AOJ fund, that would hurt all the other entities (such as State Police Retirement, the State Crime Lab, and the Office of the Prosecutor Coordinator) that receive AOJ funding.*

In an attempt to find a creative solution that would not create a negative impact on other entities, the agency determined that the difference could be paid using AOC Division of Dependency Neglect professional fees and services funds. Sound financial practices had resulted in significant savings without compromising Dependency Neglect responsibilities. Using these funds to process remaining county juror reimbursements ensured that justice would continue to be administered as jurors performed their professional service.

In its finding, Legislative Audit reports that it believes Dependency Neglect funds could not be used in this manner. Legislative Audit advised that in the event county juror reimbursement funds run out, the agency could follow the instructions set by A.C.A. § 16-10-310(d)(l):

> *"If required to help meet the commitments of the State Administration of Justice Fund and if funds are determined to be available, the Chief Fiscal Officer of the State may transfer a sum not to exceed four million dollars ($4,000,000) during any fiscal year from the Budget Stabilization Trust Fund to the State Administration of Justice Fund."*

When facing this issue, the agency attempted to use all the resources it had been given. Applying the remaining funds in professional fees and services to cover juror professional fees and services appeared on its face to be an appropriate use and certainly one that is critical for the administration of justice. However, the agency acknowledges its mistake and will not repeat this error in the future. The AOC contacted the Office of Budget to determine if an error correction was possible. However, that office advised that this was no longer an option because the mistake occurred in the previous fiscal year.

In the current fiscal year (2023), the AOC is presented with a similar situation where requests for county juror reimbursements exceed funding but not appropriation. Following the recommendation by Legislative Audit, the AOC contacted the Chief Fiscal Officer of the State inquiring about a transfer of funds per A.C.A. § 16-10-310(d)(l). The Department of Finance and Administration advised that providing funding from the Budget Stabilization Trust Fund would require a proportional increase to all 21 entities receiving AOJ funding, thereby far exceeding the $4 million limitation. Thus, the prescribed solution appears unable to solve the problem.

The AOC anticipates that this problem will be a reoccurring one. Therefore, the agency proposes another possible remedy that could help avoid such a situation in future fiscal years: adding special language to the AOC appropriation act that grants the agency flexibility to transfer leftover funds across its 38 fund centers. This minor change could result in significant savings and a more efficient use of funds appropriated to the AOC. The AOC seeks to work with the General Assembly, Legislative Audit, and the Bureau of Legislative Research to craft such a solution in the next session.

Agency's Response to Findings

Government Auditing Standards require the auditors to perform limited procedures on the Agency's response to the finding identified in our audit and described in the Schedule of Findings and Responses above. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
June 6, 2023

ADMINISTRATIVE OFFICE OF THE COURTS
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2022

Exhibit A

		General Fund
ASSETS		
Cash and cash equivalents	$	4,447,505
Other receivables		2,339
Prepaid items		502,167
TOTAL ASSETS	$	4,952,011
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable - vendors	$	278,603
Accrued and other current liabilities		1,746,171
Due to other governments		561
Due to other state agencies		95,707
Total Liabilities		2,121,042
Fund balance:		
Nonspendable for:		
Prepaid items		502,167
Restricted for program requirements		123,140
Committed for program requirements		1,754,431
Unassigned		451,231
Total Fund Balance		2,830,969
TOTAL LIABILITIES AND FUND BALANCE	$	4,952,011

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

Exhibit B

ADMINISTRATIVE OFFICE OF THE COURTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund
REVENUES	
Federal grants and reimbursements	$ 1,269,638
Fine installment fees (Acts 1262 of 1995 and 328 of 2009)	5,133,208
Certificate fees	18,525
Registration fees	74,602
Interest income	3,613
Miscellaneous	62,224
TOTAL REVENUES	6,561,810
Less: State Treasury service charge	243
NET REVENUES	6,561,567
EXPENDITURES	
Salary and benefits	30,652,377
Communication and transportation of commodities	977,123
Printing and advertising	18,725
Repairing and servicing	1,260,204
Utilities and rent	287,338
Travel and subsistence	863,696
Professional services	2,726,144
Insurance and bonds	30,462
Other expenses and services	473,746
Commodities, materials, and supplies	642,313
Assistance, grants, and aid	2,109,791
Refunds, taxes, and claims	5,511,193
Low value asset purchases	129,323
Capital outlay	162,079
TOTAL EXPENDITURES	45,844,514
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(39,282,947)
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	16,650,000
Uniform filing fees and court costs transfers (TAJ)	20,242,278
Coronavirus relief fund	1,554,736
Coronavirus emergency supplemental funding program	586,747
Cares act vaccine incentive and director's authorization leave	60,511
Judicial education's district judges continuing education Reimbursement grant fund	38,139
Accountability court transfers	440,332
Marketing and redistribution sale proceeds	443
Other, net	6,722
Prior-year refunds to expenses	9,143
Prior-year warrants outlawed and cancelled	158
TOTAL OTHER FINANCING SOURCES (USES)	39,589,209
NET CHANGE IN FUND BALANCE	306,262
FUND BALANCE - JULY 1	2,524,707
FUND BALANCE - JUNE 30	$ 2,830,969

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

ADMINISTRATIVE OFFICE OF THE COURTS Exhibit C
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Federal grants and reimbursements	$ 3,611,022	$ 3,611,022	$ 1,269,638	$ (2,341,384)
Fine installment fees				
(Acts 1262 of 1995 and 328 of 2009)	7,496,766	7,496,766	5,133,208	(2,363,558)
Certificate fees			18,525	18,525
Registration fees			74,602	74,602
Interest income			3,613	3,613
Miscellaneous			62,224	62,224
TOTAL REVENUES	11,107,788	11,107,788	6,561,810	(4,545,978)
Less: State Treasury service charge			243	(243)
NET REVENUES	11,107,788	11,107,788	6,561,567	(4,546,221)
EXPENDITURES				
Regular salaries	23,282,476	23,589,845	23,061,586	528,259
Extra help	5,000	5,000		5,000
Operating expenses	5,871,213	7,748,707	4,895,127	2,853,580
Personal services matching	7,643,765	7,730,985	7,590,791	140,194
Grants and aids	2,425,000	2,847,131	2,109,792	737,339
Conference fees and travel	429,570	1,206,713	187,198	1,019,515
Professional fees and services	2,263,420	4,112,332	2,369,248	1,743,084
Capital outlay	966,090	188,592	162,079	26,513
Refunds and reimbursements	850,000	5,502,943	5,468,693	34,250
Attorney ad litem	396,750			
Juvenile probation officers and specialty court program	4,815,310	313,500		313,500
Court interpreter fees and indigent transcripts	1,119,350			
Court reporter substitutes	375,000			
TOTAL EXPENDITURES	50,442,944	53,245,748	45,844,514	7,401,234
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(39,335,156)	(42,137,960)	(39,282,947)	2,855,013

ADMINISTRATIVE OFFICE OF THE COURTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

Exhibit C

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	15,950,760	15,950,760	16,650,000	699,240
Uniform filing fees and court costs transfers (TAJ)	22,166,445	22,166,445	20,242,278	(1,924,167)
Coronavirus relief fund			1,554,736	1,554,736
Coronavirus emergency supplemental funding program			586,747	586,747
Cares act vaccine incentive and director's authorization leave			60,511	60,511
Judicial education's district judges continuing education Reimbursement grant fund	80,000	80,000	38,139	(41,861)
Accountability court transfers			440,332	440,332
Marketing and redistribution sale proceeds		443	443	
Other, net			6,722	6,722
Prior-year refunds to expenses			9,143	9,143
Prior-year warrants outlawed and cancelled			158	158
TOTAL OTHER FINANCING SOURCES (USES)	38,197,205	38,197,648	39,589,209	1,391,561
NET CHANGE IN FUND BALANCE	(1,137,951)	(3,940,312)	306,262	4,246,574
FUND BALANCE - JULY 1	2,524,707	2,524,707	2,524,707	
FUND BALANCE - JUNE 30	$ 1,386,756	$ (1,415,605)	$ 2,830,969	$ 4,246,574

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 496 of 1965, as amended, established the Administrative Office of the Courts as an office of Arkansas state government to administer the non-judicial business of the judicial branch. The Director is nominated to his or her position by the Chief Justice of the Supreme Court and approved by the Supreme Court and the Judicial Council. He or she serves at the pleasure of the Supreme Court.

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.

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.

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

<u>State Board of Finance Policies</u>

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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

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

Deposits

Deposits are carried at cost and consist cash in State Treasury totaling $4,447,505. 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.

F. 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.”

G. 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.

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Fund Equity (Continued)

Fund Balance (Continued)

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.

H. 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.

ADMINISTRATIVE OFFICE OF THE COURTS
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2022
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2022	2021	2020	2019	2018
General Fund					
Total Assets	$ 4,952,011	$ 4,386,303	$ 4,260,197	$ 5,510,734	$ 5,276,516
Total Liabilities	2,121,042	1,861,596	1,516,399	1,446,638	1,086,241
Total Fund Equity	2,830,969	2,524,707	2,743,798	4,064,096	4,190,275
Net Revenues	6,561,567	6,311,300	6,625,506	6,608,114	6,695,018
Total Expenditures	45,844,514	41,700,342	42,274,228	43,674,443	43,401,784
Total Other Financing Sources (Uses)	39,589,209	35,169,951	34,328,424	36,940,150	36,373,120

A. Capital Assets

Capital assets purchased (or leased) and in the custody of this Agency were recorded as expenditures at the time of purchase (lease inception). Assets with costs exceeding $500 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Only leases in excess of $25,000 with non-State entities were recorded in the statewide accounting system. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "government-wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

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

Capital assets activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Retirements	Post Caps	Ending Balance
Governmental activities:					
Improvements	$ 280,886				$ 280,886
Equipment	2,503,771	$ 162,079	$ 411,188		2,254,662
Other capital assets	7,297,468				7,297,468
Assets under construction	159,000			$ 10,000	169,000
Total governmental activities	$ 10,241,125	$ 162,079	$ 411,188	$ 10,000	$ 10,002,016

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

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

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2022, 2021, and 2019, were $3,384,140, $3,246,235, and $3,235,164, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

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

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retires and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed $550 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

D. Compensated Absences – Employee Leave

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

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

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2022 and 2021, amounted to $3,148,430 and $3,120,888, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to $27,542.