

OFFICE OF THE ATTORNEY GENERAL

Annual Financial Report

June 30, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE



OFFICE OF THE ATTORNEY GENERAL
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Arkansas



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

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

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

Office of the Attorney General
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 Office of the Attorney General, 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 Office of the Attorney General'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 fund of the Office of the Attorney General 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{s}

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

Emphasis of Matter

As indicated above, the financial statements of the Office of the Attorney General 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 Office of the Attorney General. 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 Office of the Attorney General 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 Office of Attorney General 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 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 August 11, 2023, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script, appearing to read "Roger A. Norman".

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

Little Rock, Arkansas
August 11, 2023
SA0405322

Arkansas

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



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
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

Office of the Attorney General
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 Office of the Attorney General (the "Agency"), 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 Office of the Attorney General's departmental financial statements, and have issued our report thereon dated August 11, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described below in the Schedule of Findings and Responses as items 2022-1 and 2022-2.

SCHEDULE OF FINDINGS AND RESPONSES

2022-1 Twenty-six employees were paid in excess of the line-item salary appropriation, per Act 45 of 2021, by a total of \$69,055, in conflict with Ark. Const. art. 16, § 4, which states, "Except as provided in Arkansas Constitution, Article 19, § 31, the General Assembly shall fix the salaries and fees of all officers in the State; and no greater salary or fee than that fixed by law shall be paid to any officer, employee, or other person, or at any rate other than par value; and the number and salaries of the clerks and employees of the different departments of the State shall be fixed by law."

We recommend the AG's Office ensure employees are not paid above appropriated line-item maximum salary amounts.

Management personnel responded: *I agree that these payments to employees in excess of their line-item salary appropriations – which were made during the tenure of the previous Attorney General – violated not only Article 16, Section 4, of the Arkansas Constitution, but also the Regular Salary Procedures and Restrictions Act, codified at A.C.A. § 21-5-101. In fact, my predecessor opined in Attorney General Opinion No. 2017-080 that payments in excess of line-item salary appropriations were unlawful. I explained my views on this question in Attorney General Opinion No. 2023-004, which was written in response to an opinion request by Senator Jimmy Hickey, Jr. I have not authorized and will not authorize payments to employees in excess of their line-item salary appropriations.*

2022-2 Settlement funds are monies primarily received by the Consumer Protection Division for various claims and lawsuits. Act 54 of 2022, Section 13, established a spending limit of \$25 million in settlement funds. On January 5 and 6, 2023, three checks totaling \$27.5 million were disbursed from the settlement fund and transferred to the State, causing the Office to exceed the appropriation spending limit, in noncompliance with Act 54 of 2022.

An internal investigation conducted by the current Attorney General resulted in a request to return a portion of the dispersed funds, as well as a one-time appropriation request of \$17.5 million, which increased the total appropriation for fiscal year 2023 to \$42.5 million. The Department of Finance and Administration returned \$17.5 million to the Attorney General's settlement fund. For the year ended June 30, 2023, the Attorney General's expenditures of settlement funds were less than the \$42.5 million adjusted appropriation.

We recommend the Agency continually monitor expenditures to ensure compliance with appropriation limits.

Management personnel responded: *I agree that my predecessor exceeded the settlement fund spending limit. Upon taking office, I ordered that an internal audit be conducted. This audit found that the previous Attorney General exceeded the appropriated limit of \$25,000,000 in settlement fund spending contained in Section 13 of Act 54 of 2022. The excess was due to large disbursements of settlement funds authorized by the previous Attorney General, especially a total of \$27,500,000 transferred out of the Office on January 6, 2023 – four days before my swearing in. I self-reported the overage in separate letters to the Joint Budget Committee and the Legislative Joint Auditing Committee dated March 14, 2023. To bring the Office back into compliance with the law, I sought and obtained the return of certain settlement funds and an increased appropriation. I will not only comply with the appropriation for settlement fund spending going forward, but I also request and received a \$10,000,000 reduction of that appropriation in Act 495 of 2023.*

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
August 11, 2023

OFFICE OF THE ATTORNEY GENERAL
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2022

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	\$ 16,883,341
Federal receivables	15,938
Due from other state agencies	35,270
Prepaid items	196,039
Other	6,000
Accrued income	7
TOTAL ASSETS	\$ 17,136,595
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable:	
Vendors	\$ 157,465
Other	457,388
Accrued and other current liabilities	847,276
Interagency due to	13,263
Due to other governments	976
Deferred inflow of resources	2,681
Total Liabilities	1,479,049
 Fund balance:	
Nonspendable for prepaid items	196,039
Restricted for program requirements	
Committed for:	
Program requirements	
Other	
Unassigned	15,461,507
Total Fund Balance	15,657,546
TOTAL LIABILITIES AND FUND BALANCE	\$ 17,136,595

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

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

Exhibit B

	General Fund
REVENUES	
Federal grants and reimbursements	\$ 2,310,277
Court awards	7,976,676
Grants and reimbursements	55,698
Investment earnings	8,000
Other sales, refunds, and reimbursements	621
TOTAL REVENUES	10,351,272
EXPENDITURES	
Salary and benefits	16,580,179
Communication and transportation of commodities	218,158
Printing and advertising	138,227
Repairing and servicing	71,203
Utilities and rent	1,497,608
Travel and subsistence	210,455
Professional services	3,857,998
Assistance, grants, and aid	2,123,500
Insurance and bonds	25,916
Other expenses and services	873,004
Commodities, materials, and supplies	1,065,529
Refunds, taxes, and claims	253,582
Debt service	50,238
Capital outlay	4,082,321
TOTAL EXPENDITURES	31,047,918
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,696,646)
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General/Special revenue allocation	17,500,000
Marketing and redistribution sales proceeds	4,416
Other, net	396,450
Interagency transfers out - court settlement distributions	(2,476,467)
Capitalized lease acquisition	4,001,902
Prior-year warrants outlawed and cancelled	83,678
TOTAL OTHER FINANCING SOURCES (USES)	19,509,979
NET CHANGE IN FUND BALANCE	(1,186,667)
FUND BALANCE - JULY 1	16,844,213
FUND BALANCE - JUNE 30	\$ 15,657,546

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

OFFICE OF THE ATTORNEY GENERAL
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			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Federal grants and reimbursements	\$ 2,939,868	\$ 2,939,868	\$ 2,310,277	\$ (629,591)
Court awards			7,976,676	7,976,676
Grants and reimbursements			55,698	55,698
Investment earnings			8,000	8,000
Other sales, refunds, and reimbursements			621	621
TOTAL REVENUES	<u>2,939,868</u>	<u>2,939,868</u>	<u>10,351,272</u>	<u>7,411,404</u>
EXPENDITURES				
Regular salaries	14,735,010	14,727,610	12,609,440	2,118,170
Extra help	148,896	148,896	18,891	130,005
Operating expenses	2,975,510	14,076,505	6,345,845	7,730,660
Personal services matching	4,557,249	4,557,249	3,951,849	605,400
Conference fees and travel	222,509	247,509	131,336	116,173
Professional fees and services	712,215	4,341,545	3,857,998	483,547
Capital outlay	185,500	370,500	4,082,321	(3,711,821)
Claims		15,000		15,000
Marketing and redistribution		4,416		4,416
Cash fund settlement expenses	25,031,000	10,461,000	50,238	10,410,762
TOTAL EXPENDITURES	<u>48,567,889</u>	<u>48,950,230</u>	<u>31,047,918</u>	<u>17,902,312</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(45,628,021)</u>	<u>(46,010,362)</u>	<u>(20,696,646)</u>	<u>25,313,716</u>
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General/Special revenue allocation	20,444,446	20,444,446	17,500,000	(2,944,446)
Other, net			396,450	396,450
Cash fund settlement fees	25,031,000	25,031,000		(25,031,000)
Capitalized lease acquisition			4,001,902	4,001,902
Interagency transfers out - court settlement distributions			(2,476,467)	(2,476,467)
Marketing and redistribution sales proceeds			4,416	4,416
Prior-year warrants outlawed and cancelled			83,678	83,678
TOTAL OTHER FINANCING SOURCES (USES)	<u>45,475,446</u>	<u>45,475,446</u>	<u>19,509,979</u>	<u>(25,965,467)</u>
NET CHANGE IN FUND BALANCE	<u>(152,575)</u>	<u>(534,916)</u>	<u>(1,186,667)</u>	<u>(651,751)</u>
FUND BALANCE - JULY 1	<u>16,844,213</u>	<u>16,844,213</u>	<u>16,844,213</u>	
FUND BALANCE - JUNE 30	<u>\$ 16,691,638</u>	<u>\$ 16,309,297</u>	<u>\$ 15,657,546</u>	<u>\$ (651,751)</u>

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

OFFICE OF THE ATTORNEY GENERAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The Office of the Attorney General, an office of Arkansas state government, was created as part of the Executive Department of the State of Arkansas by the adoption of the Constitution of the State of Arkansas. The Constitution was adopted in convention on September 7, 1874, and ratified by the people on October 30, 1874.

Ark. Code Ann. §§ 25-16-703 – 25-16-704 provides that the Attorney General shall maintain and defend the interests of the State in matters before the United States Supreme Court and all other federal courts and shall be the legal representative of all state officers, boards, and commissions in all litigations where the interest of the State is involved.

Ark. Code Ann. § 4-88-105 provides for the Consumer Protection Division within the Office of the Attorney General to represent and protect the State, its subdivisions, the legitimate business community, and the general public as consumers

B. Basis of Presentation – Fund Accounting

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

Governmental Funds

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

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities (i.e., 45 days). Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met.

D. Cash and Cash Equivalents

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

E. Deposits and Investments

State Board of Finance Policies

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

OFFICE OF THE ATTORNEY GENERAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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 and cash in State Treasury totaling \$16,192,164 and \$884,872, 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, 2022, none of the Agency's bank balance of \$16,756,160 was exposed to custodial credit risk.

F. Interfund Balances and Transfers

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

G. Prepaid Expenses

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

H. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

OFFICE OF THE ATTORNEY GENERAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Fund Equity

Fund Balance

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

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

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

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

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

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

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

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

J. Budgetary Data

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

NOTE 2: Leases

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transactions.

Lease Obligations

The Agency leases its building, a nonfinancial asset. Since the financial statements of the Agency are presented using the modified accrual basis of accounting, no liability or leased asset is reflected on the balance sheet. Additional details regarding leased assets and related obligations are presented in Other General Information.

OFFICE OF THE ATTORNEY GENERAL
 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	\$ 17,136,595	\$ 18,717,373	\$ 6,089,298	\$ 10,143,780	\$ 6,294,924
Total Liabilities	1,479,049	1,873,160	1,408,377	724,618	693,722
Total Fund Equity	15,657,546	16,844,213	4,680,921	9,419,162	5,601,202
Net Revenues	10,351,272	19,641,812	8,113,624	10,175,107	5,218,406
Total Expenditures	31,047,918	24,673,562	23,380,807	22,901,533	21,108,271
Total Other Financing Sources (Uses)	19,509,979	17,195,042	10,528,942	16,544,386	14,155,032

OFFICE OF THE ATTORNEY GENERAL
OTHER GENERAL INFORMATION
JUNE 30, 2022
(UNAUDITED)

A. Capital Assets

Capital assets purchased (or leased) and in the custody of this Agency were recorded as expenditures at the time of purchase (lease inception). Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Only leases in excess of \$25,000 with non-State entities were recorded in the statewide accounting system. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. 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	Ending Balance
Governmental activities:				
Buildings	\$ 2,775,903			\$ 2,775,903
Equipment	3,060,501	\$ 144,213	\$ 578,424	2,626,290
Intangible assets	59,265			59,265
Right-to-Use assets				
Buildings		4,001,902		4,001,902
Total governmental activities	<u>\$ 5,895,669</u>	<u>\$ 4,146,115</u>	<u>\$ 578,424</u>	<u>\$ 9,463,360</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.

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B. Pension Plan (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

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 2020, were \$1,912,470, \$1,925,524, and \$1,835,386, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

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

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by 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 \$1,353,090 and \$1,490,791, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to (\$137,701).

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E. Leases

The Agency has acquired property by entering into a contract that conveys control of the right to use another entity's nonfinancial asset which is treated as a lease under the Governmental Accounting Standards Board (GASB) Statement No. 87. For more information on the Agency's right-to-use assets, refer to Note 2 above. Future amounts required to pay principal and interest on lease obligations as of June 30, 2022, were as follows:

Years Ending June 30,	Principal	Interest	Total
2023	\$ 1,258,356	\$ 35,690	\$ 1,294,046
2024	1,304,664	15,027	1,319,691
2025	220,219	445	220,664
Totals	<u>\$ 2,783,239</u>	<u>\$ 51,162</u>	<u>\$ 2,834,401</u>