AUDITOR OF STATE

Annual Financial Report

June 30, 2021

LEGISLATIVE JOINT AUDITING COMMITTEE

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

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

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Auditor of State
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Auditor of State, an office of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Auditor of State's departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund of the Auditor of State as of June 30, 2021, the changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of the Auditor of State 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 Auditor of State. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2021, the changes in its financial position, and budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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 Auditor of State 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 Auditor of State individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 on our consideration of the Auditor of State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Auditor of State'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 Auditor of State's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger A. Norman

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

Little Rock, Arkansas
September 20, 2022
SA0405921

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

Auditor of State
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 Auditor of State (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Auditor of State's departmental financial statements, and have issued our report thereon dated September 20, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 item 2021-1.

SCHEDULE OF FINDINGS AND RESPONSES

2021-1 Ark. Const. art. 19, § 31, requires that the Independent Citizens Commission set the salaries of elected constitutional officers of the executive department, members of the General Assembly, justices, judges, and prosecuting attorneys. The Agency is responsible for making these salary disbursements.

The Agency identified and notified Arkansas Legislative Audit on October 29, 2021, of a salary overpayment to a Deputy Prosecuting Attorney (DPA) for four months from July 15 through October 31, 2021, totaling $3,849. The salary was over-recorded in the payroll system during the merit increase process.

The employee was newly hired on June 14, 2021, and was appropriately paid the base salary, plus 16 hours from the prior period, on the first June 30 payroll. However, an error occurred during the merit increase process because the June 30 payroll register, rather than the Payroll Master File, was utilized to calculate merit increases for the DPA. Although the employee was appropriately not awarded a merit raise, the base salary plus the 16 hours was carried forward on July 15, 2021, as the DPA's updated base salary. The overpayment was fully recouped on January 21, 2022.

We recommend the Agency continue to evaluate internal controls to prevent unauthorized salary disbursements.

Management personnel responded: *On October 29, 2021, the Auditor of State's Office (AOS) self-reported this overpayment to Arkansas Legislative Audit (ALA). As of January 3, 2022, the overpaid individual repaid the amount owed in full.*

The incident noted in the October 29 letter to ALA related to a newly hired Deputy Prosecuting Attorney (DPA). The Auditor of State's Office administers DPA payroll but relies on the Office of the Prosecutor Coordinator (OPC) to provide timely notice to AOS related to personnel actions. The newly hired DPA started on June 14, 2021, but AOS did not receive the new-hire paperwork by the June 15 payroll deadline. Therefore, the DPA received their first paycheck on June 30. AOS paid the DPA their base salary, plus 16 hours owed from June 14 and 15, on the June 30 paycheck. The higher pay on the June 30 payroll should have been a one-time occurrence, with base pay resuming July 15.

The July 15 payroll included 260 manually keyed changes to DPA payroll. Many personnel actions may result in manually keyed changes, including merit raises, new hires, and terminations. While manually entering the July 15 changes, AOS failed to decrease the newly hired DPA's salary to base pay. The DPA received the higher rate of pay for eight pay periods, July 15 through October 31, 2021. This resulted in an overpayment of $3,848.88.

AOS acknowledged control failures to Legislative Audit in the October 29 letter. These control failures included lack of proper management review of the payroll process and proper training of a new employee. The responsible manager was subsequently relieved of payroll duties. AOS has increased management involvement in and oversight of the payroll process. Additionally, the AOS Internal Auditor now performs supplemental reviews of large volume pay rate changes.

Since AOS is not in AASIS, AOS established internal payroll deadlines and provided them to the OPC. If OPC provides notice of a personnel action after the deadline, pay changes must occur in subsequent pay periods. This causes more manual pay adjustments, such as the one noted in this finding.

In Fiscal Year 2022, AOS performed approximately 790 manually keyed personnel actions on behalf of OPC. Due to the frequency and number of DPA personnel actions, AOS believes DPA payroll should be processed internally at the Office of the Prosecutor Coordinator. The OPC is on AASIS, which would provide the necessary control environment for the frequent personnel actions that occur within this group. Additionally, OPC has the authority to ensure timely notification of personnel actions, which AOS lacks.

In 2015 the Legislature passed ACT 268 which moved the administration of the payroll for Trial Court Assistants and Trial Court Reporters to the Administrative Office of the Courts for similar reasons. We recommend a similar action for the upcoming legislative session for the Deputy Prosecuting Attorneys.

Agency's Response to Findings

The Agency's response to the finding 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

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
September 20, 2022

AUDITOR OF STATE
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2021

Exhibit A

		General Fund
ASSETS		
Cash and cash equivalents	$	81,390,707
Investments		3,533,972
Assets held by third-party custodian		16,547,317
Accounts receivable		137,627
Due from other state agencies		41,890
Prepaid items		38,960
TOTAL ASSETS	$	101,690,473
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable - vendors	$	139,279
Due to other state agencies		38,804
Accrued and other current liabilities		1,379,750
Unclaimed property claims payables		110,209,567
Total Liabilities		111,767,400
Fund Balances:		
Nonspendable		
Prepaid items		38,960
Unassigned		(10,115,887)
Total Fund Balances		(10,076,927)
TOTAL LIABILITIES AND FUND BALANCES	$	101,690,473

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

AUDITOR OF STATE

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

		General Fund
REVENUES		
Real estate transfer tax	$	162,539
Fees for continuing education		74,761
Net unclaimed property received/distributed		15,446,242
Investment earnings		1,891,733
Collections for district judges' salaries		3,568,981
TOTAL REVENUES		21,144,256
EXPENDITURES		
Salary and benefits - payroll		65,620,247
Employee benefits - matching		17,483,762
Communication and transportation of commodities		108,537
Printing and advertising		105,707
Repairing and servicing		62,645
Utilities and rent		283,590
Travel and subsistence		290,739
Professional services		1,272,758
Insurance and bonds		3,108
Other expenses and services		55,951
Commodities, materials, and supplies		75,608
Refunds, taxes, and claims		220
Capital outlay		23,044
TOTAL EXPENDITURES		85,385,916
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(64,241,660)

Exhibit B

AUDITOR OF STATE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General/Special revenue allocation	$ 79,000,000
Uniform filing fees and court costs	349,689
Funding provided by County Aid Fund (MLC)	5,030,147
Arkansas Natural and Cultural Resources Council grant	275,458
Excess unclaimed property transferred to General Revenue Allotment Fund (AGA)	(27,495,975)
Transfer to the Constitutional Officers Fund (Ark. Code Ann. § 19-5-205)	(3,584,704)
Unclaimed property expense reimbursement to State Central Services Fund (Ark. Code Ann. § 18-28-213)	(1,365,196)
Other, net	(3,027)
Prior-year warrants outlawed and cancelled	83,305
TOTAL OTHER FINANCING SOURCES (USES)	52,289,697
NET CHANGE IN FUND BALANCE	(11,951,963)
FUND BALANCE - JULY 1	1,875,036
FUND BALANCE - JUNE 30	$ (10,076,927)

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

AUDITOR OF STATE

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Real estate transfer tax	$ 150,000	$ 150,000	$ 162,539	$ 12,539
Fees for continuing education	219,091	219,091	74,761	(144,330)
Cash funds	27,555,750	27,555,750	20,906,956	(6,648,794)
TOTAL REVENUES	27,924,841	27,924,841	21,144,256	(6,780,585)
EXPENDITURES				
Regular salaries	21,401,298	21,551,298	65,613,574	(44,062,276) *
Extra help	30,000	30,000	6,673	23,327
Operating expenses	1,481,450	2,150,341	1,401,920	748,421
Personal services matching	6,391,345	6,591,345	17,483,762	(10,892,417) *
Conference fees and travel	45,000	45,000	388	44,612
Professional fees and services	1,145,000	1,486,522	856,555	629,967
Capital outlay	100,000	100,000	23,044	76,956
Expense allowance	1,024,800	1,067		1,067
TOTAL EXPENDITURES	31,618,893	31,955,573	85,385,916	(53,430,343)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,694,052)	(4,030,732)	(64,241,660)	(60,210,928)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General/Special revenue allocation	31,258,881	31,258,881	79,000,000	47,741,119
Uniform filing fees and court costs			349,689	349,689
Funding provided by County Aid Fund (MLC)			5,030,147	5,030,147
Arkansas Natural Resources Commission grant			275,458	275,458
Excess unclaimed property transferred to General Revenue Allotment Fund (AGA)			(27,495,975)	(27,495,975)
Transfer to the Constitutional Officers Fund (Ark. Code Ann. § 19-5-205)			(3,584,704)	(3,584,704)
Unclaimed property expense reimbursement to State Central Services Fund (Ark. Code Ann. § 18-28-213)			(1,365,196)	(1,365,196)
Other, net			(3,027)	(3,027)
Prior-year warrants outlawed and cancelled			83,305	83,305
TOTAL OTHER FINANCING SOURCES (USES)	31,258,881	31,258,881	52,289,697	21,030,816
NET CHANGE IN FUND BALANCE	27,564,829	27,228,149	(11,951,963)	(39,180,112)
FUND BALANCE - JULY 1	1,875,036	1,875,036	1,875,036	
FUND BALANCE - JUNE 30	$ 29,439,865	$ 29,103,185	$ (10,076,927)	$ (39,180,112)

* Negative variance was the result of Ark. Const. amend. 94 prohibiting the General Assembly from setting its own salaries and the salaries of elected constitutional officers, justices, and judges.

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Ark. Const. art. 6 provides for the Auditor of State as an office of Arkansas state government. The Auditor of State holds office for a term of four years until a successor is elected by qualified electors of the State at-large at the time and places of voting for members of the General Assembly.

Ark. Code Ann. § 25-16-510 provides that the Auditor of State shall be the general accountant of the State and keep all public accounts, books, vouchers, documents, and all papers relating to the contracts of the State and its debts, revenue, and fiscal affairs not required by law to be placed in some other office or kept by some other person.

The Auditor of State also acts as the disbursing officer for designated state appropriations to constitutional officers, counties, and other public organizations. Funds are received and distributed as prescribed by Arkansas Code Annotated, in a disbursing capacity, with varying degrees of managerial control as determined by Code.

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.

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.

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, cash in State Treasury, and certificates of deposit totaling $42,521,768 $5,158,733, and $3,533,972, 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, 2021, none of the Agency's bank balance of $46,055,740 was exposed to custodial credit risk.

Investments

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

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

The Agency has the following recurring fair value measurements as of June 30, 2021:

Investment Type	Valuation Method	Amount
State Treasury Money Management Trust Fund	Level 1	$ 34,479,017

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

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

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

As of June 30, 2021, the Agency has 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
State Treasury Money Management Trust Fund	$ 34,479,017	$ 34,479,017			

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.

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Fund Equity (Continued)

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.

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.

NOTE 2: Stewardship, Compliance, and Accountability

A. Deficit fund balance

The Agency had a deficit fund balance of $10,076,927 as of June 30, 2021, in the general fund, resulting from the excess unclaimed property transferred to the Department of Finance and Administration's General Revenue Allotment Fund. Subsequent general revenue allocation transfers will provide funding for the liabilities if necessary.

Schedule 1

AUDITOR OF STATE
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2021
(UNAUDITED)

	For the Year Ended June 30,				
	2021	2020	2019	2018	2017
General Fund					
Total Assets	$ 101,690,473	$ 103,572,152	$ 107,971,274	$ 110,296,118	$ 114,576,704
Total Liabilities	111,767,400	101,697,116	101,693,668	101,265,681	94,902,986
Total Fund Equity	(10,076,927)	1,875,036	6,277,606	9,030,437	19,673,718
Total Revenues	21,144,256	24,743,609	24,235,092	14,842,573	23,307,063
Total Expenditures	85,385,916	81,496,812	79,327,091	76,702,329	73,293,936
Total Other Financing Sources (Uses)	52,289,697	52,350,633	52,339,168	51,216,475	47,195,707

A. Capital Assets

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

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

Capital assets activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Improvements	$ 187,070			$ 187,070
Equipment	360,523	$ 23,044	$ 43,040	340,527
Intangibles	364,602			364,602
Total governmental activities	$ 912,195	$ 23,044	$ 43,040	$ 892,199

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, 2021, 2020, and 2019, were $6,647,357, $6,395,946, and $6,280,702, respectively, equal to the required contributions for each year.

B. Pension Plan (Continued)

Arkansas Judicial Retirement System (AJRS)

Plan Description – The judicial retirement plan is a single-employer, defined benefit pension plan administered by APERS that covers all Chancery, Circuit, and Court of Appeals Judges and Supreme Court Justices, whether elected or appointed to office. Act 399 of 1999 created a Tier Two benefit program for all judges or justices elected or appointed on or after July 30, 1999. Existing members of the plan in effect prior to this date (hereafter referred to as Tier One) had until the end of their current term to elect coverage under Tier Two.

Under Tier One, members are eligible for full retirement benefits (1) at any age with 20 years of credited service or (2) at age 65 with 10 years of credited service. Persons who became members after June 30, 1983, must also have at least eight years of actual service as a Supreme Court Justice or as a judge of the Circuit Courts or the Court of Appeals. Members are eligible for reduced benefits (1) at any age if they were a member before July 1, 1983, and have at least 18 but less than 20 years of credited service or (2) are between the ages of 62 and 65 with 14 years of credited service. The normal retirement benefit, paid monthly, is 60% of the annual salary payable to the last judicial office held. For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased as the salary for the particular judicial office is increased or decreased. For all judges or justices who were first elected or appointed on or after July 1, 1983, the redetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. The plan also provides for disability and survivor benefits.

Under Tier Two, members are eligible for full retirement benefits (1) at any age with 20 years of actual service or (2) at age 65 with eight years of actual service. Members are eligible for reduced benefits if they are between the ages of 62 and 65 and have eight years of actual service. The normal retirement benefit, paid monthly, is 3.2% of the salary of the last judicial office held multiplied by the number of years of actual service, not to exceed 80% of the salary of the last judicial office held. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. The plan also provides for disability and survivor benefits.

The benefit provisions provided by the judicial retirement plan are established by state law and may be amended only by the General Assembly

Contributions – Employer contribution provisions for the judicial retirement plan are established by Ark. Code Ann. § 24-8-210 for Tier One and by Ark. Code Ann. § 24-8-707 for Tier Two at 12% of active member payroll. Contributory members are required to contribute 6% of their annual salary for Tier One and 5% for Tier Two. Employee contributions are no longer required for Tier One members when a judge is certified eligible for retirement or for Tier Two when a judge or justice has sufficient service to receive the maximum benefit under the plan provisions.

Additionally, in accordance with Ark. Code Ann. § 24-8-210(b), the State makes an annual transfer to the plan by computing the dollar amount required based on the actuarially-determined employer rate in the most recent annual actuarial valuation and subtracting from that amount the employer statutory contribution amount and the court cost revenue received. The State's supplemental contribution during FY2021 under this provision of law amounted to $5,158,514.

B. Pension Plan (Continued)

Arkansas Judicial Retirement System (AJRS) (Continued)

	Arkansas Judicial Retirement System
Contribution rates:	
Employer	12%
Employee	Tier One - 6%, Tier Two - 5%
Contributions valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period	13-year UAAL, 18-year assumption changes, 20-years experience deviations
Asset valuation method	4-year smoothed market with 25% corridor
Actuarial assumptions:	
Investment rate of return	5.75%
Projected salary increases	3.25%
inflation rate	2.50%
Mortality Table	RP-2014 Mortality Tables
Summary of population statistics:	
Retirees and beneficiaries currently receiving benefits including DROP participants	178
Terminated members entitled to but not yet receiving benefits	10
Active members	145
Total plan members	333

Schedule of the Net Pension Liability

Fiscal Year Ending June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2021	$ 309,112,455	$ 346,888,932	$ (37,776,477)	112.22%	$ 25,479,456	-148.26%

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2021	$ 8,879,590	$ 8,209,893	$ 669,697	$ 25,479,456	32.22%

B. Pension Plan (Continued)

Arkansas Judicial Retirement System (AJRS) (Continued)

Schedule of the Investment Returns

Fiscal Year Ending June 30,	Annual Money-Weighted Rate of Return, Net of Investment Expense
2021	25.72%

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 GASB Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed $450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

D. Compensated Absences – Employee Leave

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

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

E. 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, 2021 and 2020, amounted to $185,601 and $168,898, respectively. The net changes to compensated absences payable during the year ended June 30, 2021, amounted to $16,703.