AUDITOR OF STATE

Annual Financial Report

June 30, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE

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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
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Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2022, 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.

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 Auditor of State 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 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, 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 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

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 Standa*rds, we have also issued our report dated September 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 A. Norman

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

Little Rock, Arkansas
September 6, 2023
SA0405922

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

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, 2022, 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 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. 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.

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SCHEDULE OF FINDINGS AND RESPONSES

2022-1 The Auditor of State's Office incurred $14,208 in Internal Revenue Service (IRS) penalties. Initially, the Office incurred $57,635 in penalties during fiscal year 2022 due to errors in dating the federal withholding forms submitted to the IRS for February 28, April 15, April 30, and August 31 of 2021. The first IRS notice of penalty was received by the Agency on December 3, 2021. The penalties were disputed, and $43,427 of the penalties paid were resolved and refunded, leaving a total of $14,208 paid for one incident.

We recommend the Agency strengthen policies and procedures to make certain that federal withholding forms submitted to the IRS are accurate to ensure the efficient use of state funds.

Management personnel responded: *The Auditor of State's Office (AOS) does not utilize AASIS for payroll and instead uses a separate payroll system. AOS tax payments are due to the IRS within one business day of each pay date. AOS remits IRS Form 941 quarterly to the IRS to substantiate those tax payments.*

The non-AASIS payroll system generates IRS Form 941, which populates the pay date based on the date AOS updates and finalizes the payroll. The system populated date is at least two business days before the actual pay date due to required processing time in AASIS. The previous Accounting Manager failed to review and properly update the system-generated Form 941 before submitting to the IRS. This failure created an appearance of late payments, although no late payments was made to the IRS.

The office recognized and corrected this issue by strengthening the procedures related to the quarterly completion of the IRS Form 941. The Payroll Accountant prepares Form 941 by reviewing the payroll calendar and IRS payments made for each pay date during the quarter. The Accounting Manager reviews the completed Form 941 and supporting documentation to ensure Form 941 reflects accurate pay dates prior to submitting to the IRS.

Additionally, the office has requested to move payroll to AASIS to eliminate the inherent risks associated with the non-AASIS payroll system.

2022-2 R1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide states that "the bonded disbursing officer for each state agency, board, commission, or institution is responsible for…reporting any losses of state funds to the Chief Fiscal Officer of the State and to Arkansas Legislative Audit. Losses include…the apparent theft or misappropriation of state funds or property theft." The Auditor of State notified us of the following theft of state property:

On September 28, 2022, the Agency was notified of fraudulent unclaimed properly claims made in Pennsylvania that could involve an Arkansas claimant. Upon notification, the Agency located a claim for $1,311, made by this claimant on July 9, 2020, and added the claim to the fraud mitigation tables within the Unclaimed Property Management System. Pennsylvania officials plan to refer this case to the U.S. Attorney's Office and include the Arkansas claim. As of report date, the Agency had received no further communication regarding this matter.

We recommend the Agency continue to monitor controls related to the safeguarding of assets to prevent future occurrences of theft.

Management personnel responded: *In fiscal year 2020, when the fraudulent claim was paid, the Unclaimed Property (UCP) Division paid more than 20,000 claims resulting in over $18 million returned to rightful owners. Unfortunately, due to the nature and volume of unclaimed property claims, the office cannot prevent all complex fraud schemes.*

The office has implemented all available fraud features in the unclaimed property management system, KAPS. The UCP Division monitors notifications and fraud alerts from other states and industry leaders. UCP staff record data related to potential fraud in the KAPS system for monitoring. This data feeds into Kelmar's Fraud Index (KFI) feature in KAPS and alerts UCP Claim Agents to potential fraud. UCP will continue to utilize preventative and detective controls to mitigate fraud risks in unclaimed property.

Agency's Response to Findings

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

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 6, 2023

AUDITOR OF STATE
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2022

Exhibit A

		General Fund
ASSETS		
Cash and cash equivalents	$	113,131,581
Investments		500,000
Assets held by third-party custodian		8,551,676
Accounts receivable		35,919
Due from other state agencies		18,447
Prepaid items		116,953
TOTAL ASSETS	$	122,354,576
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable - vendors	$	126,203
Due to other state agencies		1,809,156
Accrued and other current liabilities		1,350,423
Unclaimed property claims payables		118,278,976
Total Liabilities		121,564,758
Fund Balances:		
Nonspendable		
Prepaid items		116,953
Restricted for program requirements		619,421
Committed		
Program requirements		153,993
Other		230,100
Unassigned		(330,649)
Total Fund Balances		789,818
TOTAL LIABILITIES AND FUND BALANCES	$	122,354,576

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

Exhibit B

AUDITOR OF STATE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund
REVENUES	
Real estate transfer tax	$ 162,539
Fees for continuing education	76,161
Net unclaimed property received/distributed	29,264,388
Investment earnings	485,302
Collections for district judges' salaries	3,937,850
TOTAL REVENUES	33,926,240
EXPENDITURES	
Salary and benefits - payroll	69,328,719
Employee benefits - matching	18,634,782
Communication and transportation of commodities	112,280
Printing and advertising	39,119
Repairing and servicing	62,589
Utilities and rent	281,917
Travel and subsistence	427,759
Professional services	905,020
Insurance and bonds	4,533
Other expenses and services	56,207
Commodities, materials, and supplies	118,084
Refunds, taxes, and claims	57,635
TOTAL EXPENDITURES	90,028,644
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(56,102,404)

AUDITOR OF STATE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General/Special revenue allocation	$ 84,450,000
Funding provided by County Aid Fund (MLC)	4,996,926
Restricted reserve funding	1,000,000
Excess unclaimed property transferred to General Revenue Allotment Fund (AGA)	(16,300,593)
Excess mineral proceeds transferred to County Aid Fund (MLC)	(114,533)
Transfer to the Constitutional Officers Fund (Ark. Code Ann. § 19-5-205)	(3,649,972)
Unclaimed property expense reimbursement to State Central Services Fund (Ark. Code Ann. § 18-28-213)	(1,798,797)
Other, net	1,378
Prior-year warrants outlawed and cancelled	84,147
TOTAL OTHER FINANCING SOURCES (USES)	68,668,556
NET CHANGE IN FUND BALANCE	12,566,152
FUND BALANCE - JULY 1, Restated	(11,776,334)
FUND BALANCE - JUNE 30	$ 789,818

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, 2022

	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	225,000	225,000	76,161	(148,839)
Cash funds	27,555,750	27,555,750	33,687,540	6,131,790
TOTAL REVENUES	27,930,750	27,930,750	33,926,240	5,995,490
EXPENDITURES				
Regular salaries	21,831,953	22,131,953	69,017,253	(46,885,300) *
Extra help	30,000	634,839	311,466	323,373
Operating expenses	1,481,450	2,171,250	1,604,831	566,419
Personal services matching	6,635,780	6,957,089	18,634,782	(11,677,693) *
Conference fees and travel	45,000	45,000	23,696	21,304
Professional fees and services	1,145,000	1,172,265	436,616	735,649
Capital outlay	100,000	100,000		100,000
Expense allowance	1,024,800	250,050		250,050
TOTAL EXPENDITURES	32,293,983	33,462,446	90,028,644	(56,566,198)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,363,233)	(5,531,696)	(56,102,404)	(50,570,708)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General/Special revenue allocation	31,364,744	31,364,744	84,450,000	53,085,256
Funding provided by County Aid Fund (MLC)			4,996,926	4,996,926
Restricted reserve funding			1,000,000	1,000,000
Excess unclaimed property transferred to General Revenue Allotment Fund (AGA)			(16,300,593)	(16,300,593)
Excess mineral proceeds transferred to County Aid Fund (MLC)			(114,533)	(114,533)
Transfer to the Constitutional Officers Fund (Ark. Code Ann. § 19-5-205)			(3,649,972)	(3,649,972)
Unclaimed property expense reimbursement to State Central Services Fund (Ark. Code Ann. § 18-28-213)			(1,798,797)	(1,798,797)
Other, net			1,378	1,378
Prior-year warrants outlawed and cancelled			84,147	84,147
TOTAL OTHER FINANCING SOURCES (USES)	31,364,744	31,364,744	68,668,556	37,303,812
NET CHANGE IN FUND BALANCE	27,001,511	25,833,048	12,566,152	(13,266,896)
FUND BALANCE - JULY 1, Restated	(11,776,334)	(11,776,334)	(11,776,334)	
FUND BALANCE - JUNE 30	$ 15,225,177	$ 14,056,714	$ 789,818	$ (13,266,896)

* 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 $42,797,875, $5,804,619, and $500,000, 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 $44,125,751 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, 2022:

Investment Type	Valuation Method	Amount
State Treasury Money Management Trust Fund	Level 1	$ 64,529,086

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, 2022, 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	$ 64,529,086	$ 64,529,086			

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: Restatement of Prior-Year Ending Fund Balance

In fiscal year 2022, a prior-year adjustment was made by the Agency to record an accrual of the Unclaimed Property Expense Reimbursement disbursed in fiscal year 2022 to the State Central Services Fund. The effect on the beginning fund balance as previously reported on June 30, 2021, is as follows:

		General Fund
Fund Balance:		
Beginning fund balance	$	(10,076,927)
Prior year adjustment - due to other state agencies		(1,699,407)
Beginning fund balance, restated	$	(11,776,334)

AUDITOR OF STATE
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	$ 122,354,576	$ 101,690,473	$ 103,572,152	$ 107,971,274	$ 110,296,118
Total Liabilities	121,564,758	111,767,400	101,697,116	101,693,668	101,265,681
Total Fund Equity	789,818	(11,776,334)	1,875,036	6,277,606	9,030,437
Total Revenues	33,926,240	21,144,256	24,743,609	24,235,092	14,842,573
Total Expenditures	90,028,644	85,385,916	81,496,812	79,327,091	76,702,329
Total Other Financing Sources (Uses)	68,668,556	52,289,697	52,350,633	52,339,168	51,216,475

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:				
Improvements	$ 187,070	$		$ 187,070
Equipment	340,527		$ 10,717	329,810
Intangibles	364,602			364,602
Total governmental activities	$ 892,199	$	$ 10,717	$ 881,482

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 2020, were $6,994,342, $6,647,357, and $6,395,946, 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 fiscal year 2022 under this provision of law amounted to $5,438,254.

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, 2020
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	Multiple periods of 12-20 years
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	176
Terminated members entitled to but not yet receiving benefits	10
Active members	145
Total plan members	331

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
2022	$ 334,328,250	$ 296,855,183	$ 37,473,067	88.79%	$ 26,259,112	142.71%

B. Pension Plan (Continued)

Arkansas Judicial Retirement System (AJRS) (Continued)

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
2022	$ 9,017,379	$ 8,963,459	$ 53,920	$ 26,259,112	34.13%

Schedule of the Investment Returns

Fiscal Year Ending June 30,	Annual Money-Weighted Rate of Return, Net of Investment Expense
2022	(12.44%)

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 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.

C. 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 $135,005 and $185,601, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to $(50,596).