DEPARTMENT OF COMMERCE

Annual Financial Report

June 30, 2021

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF COMMERCE
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Arkansas

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

Department of Commerce
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Department of Commerce, a department 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 Department of Commerce's departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Department of Commerce as of June 30, 2021; the respective changes in financial position; where applicable, cash flows 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 Department of Commerce are intended to present the financial position; the changes in financial position; and, where applicable, cash flows and budgetary comparisons of only that portion of each major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of Commerce. 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, or, where applicable, its cash flows 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.

As discussed in Note 1.C to the financial statements, in 2021 the Department of Commerce adopted new accounting guidance: Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. 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 Department of Commerce are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Department of Commerce individually. Our opinions on the departmental financial statements are not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Commerce's departmental financial statements. The Schedule of Selected Information, Financial Information by Business Area, Basic Financial Statements of the Arkansas Department of Finance Authority (ADFA, a component unit of the Department of Commerce), 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, Financial Information by Business Area, Basic Financial Statements of ADFA, 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 August 18, 2022, on our consideration of the Department of Commerce‘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 Department of Commerce‘s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Commerce‘s internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

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

Little Rock, Arkansas
August 18, 2022
SAC990221

Arkansas

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

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

INDEPENDENT AUDITOR'S REPORT

Department of Commerce
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 each major fund and the aggregate remaining fund information of the Department of Commerce (the "Agency"), a department 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 Department of Commerce's departmental financial statements, and have issued our report thereon dated August 18, 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 opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2021-1, that we consider to be a significant deficiency.

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 are described below in the Schedule of Findings and Responses as items 2021-2, 2021-3, and 2021-4.

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SCHEDULE OF FINDINGS AND RESPONSES

2021-1 The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework of internal controls, adopted by the State of Arkansas in the Department of Finance and Administration's (DFA's) Financial Management Guide, states that communications related to both operational and financial data are needed at all levels of an agency in a relevant, reliable, and timely fashion. The State did not have policies and procedures in place to appropriately record the financial effects of the new unemployment insurance pandemic programs. As a result, we noted the following:

- Operating revenues were overstated by $151,317,347 when a portion of federal grant receipts was erroneously coded to a general ledger account related to Operating revenues, as opposed to the more appropriate general ledger account related to Non-operating revenues.
- Expenditures were overstated by $8,710,073 when revenue-correcting entries were made to a general ledger account related to expenditures, as opposed to the more appropriate general ledger account related to Non-operating revenues.
- The net effect of the first two misstatements was an understatement of Non-operating revenues of $142,607,274.
- Federal payables of claimant benefit overpayments due to the federal government were understated by $19,887,434 when the State neglected to consider overpayments made out of the legacy Unemployment Insurance payment system.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated.

Upon notification of the potential misstatements, DFA Office of Accounting made an entry in AASIS to correct the first three amounts listed above. The remaining misstatement was noted subsequent to the first three and did not meet the threshold requiring adjustment.

We recommend the State work to improve its controls over financial reporting, creating policies and procedures that encourage more accurate reporting of its programs.

Management response: *Corrective action was taken and implemented on Bullet Points #1 – #3; for Bullet Point #4, partial corrective action was taken and is targeted for completion by end of SFY Q1 2022.*

1. *The Assistant Controller will review all new templates for appropriate coding before posting, including the distinction of operating vs. non-operating revenues.*

2. *Additionally, ADWS has worked with DFA to update NBR account mapping. Revenue correcting entries were made to the NBR account that was mapped to the revenue general ledger account that otherwise would have been used, but the NBR mapping for that NBR account was to an expenditure line rather than a revenue line on the financial statements. While a different (non-operating revenue) general ledger account should have been used for the transactions, this updated NBR mapping will drive any future entries made through this NBR mapping to a revenue line rather than an expenditure line.*

3. *The UI Assistant Controller will periodically perform an analytical review of general ledger account balances to help detect significant changes in the use of accounts between years for new programs or which may have been caused by errors. Significant changes noted will be further reviewed for appropriate coding.*

4. *Partially corrected. It is uncommon for ADWS to post a federal payable for overpayments, since most of the overpayments were paid with ADWS funds through regular UI benefits. To help identify when this uncommon situation has occurred that requires posting of a federal payable, and to enhance communications between units related to identifying, calculating, and posting the year-end payable, the Controller Unit has updated its Standard Operating Procedure (SOP) titled "UI Year-End Federal Payables Calculation" to ensure all appropriate entries are posted. A key element in this SOP is that the Controller Unit will receive a breakdown of the receivables by program, which the Assistant Controller will review to ensure the appropriate amount of federal payable is posted. Anticipated completion date is September 30, 2022.*

2021-2 R1-19-4-2004 of the DFA Office of Accounting Financial Management Guide states that "the bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters 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 the Arkansas Legislative Audit. Losses include…the apparent theft or misappropriation of state funds or property theft." The Public Employee Claims Division (PECD) of the Arkansas Insurance Department notified us of the loss of one warrant totaling $818 that was improperly redeemed by an individual other than the intended claimant. While investigating a report from a claimant for a bi-weekly payment that had not been received by a claimant, PECD staff discovered that the original warrant had been deposited at First National Bank by another individual (i.e., not the claimant).

The Agency initiated a criminal investigation with Department of Public Safety – Division of Arkansas State Police. Subsequent to that investigation, the prosecutor requested that a warrant be issued for the individual for forgery in the first degree.

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

Management response: *The Arkansas Insurance Department (AID) has taken the below steps to mitigate the above referenced theft:*

01/25/2021 *– Claimant reported that they had not received their bi-weekly Permanent Partial Disability (PPD) check. Lost Warrant paperwork was sent to claimant.*

02/25/2021 *– Lost warrant paperwork received by AID. While processing the paperwork, it was discovered the check had already been cashed. After an investigation and contact with DFA and Arkansas Treasurer of State, it was determined that this was a true forgery. Bond paperwork for reissuing warrants was sent to claimant.*

03/25/2021 *– AID submitted letters to Arkansas Attorney General's Office and Arkansas State Police to report fraud.*

04/01/2021 *– AID notified Arkansas Legislative Audit of fraud.*

11/09/2021 *– Prosecutor issued arrest warrant for fraud.*

06/30/2022 *– Special Agent Roam of the Arkansas State Police confirmed that forgery charges had been filed in Pulaski County Circuit Court.*

02/01/2023 *– Trial date for Forgery Charges set.*

AID is committed to ensuring the safekeeping of assets. This check was taken out of the claimant's mailbox, altered, and cashed. AID never had physical possession of the check and had no way to prevent this theft from happening. AID has taken all necessary steps to attempt to recover the stolen funds and we will continue to monitor the progress of the case.

AID is still waiting on the claimant to return the proper paperwork to our office. The claimant has refused to fill out the required bond paperwork sent on 02/25/2021. At this time, we have not processed a replacement payment to the claimant.

2021-3 We noted one instance, totaling $3,378, in which the Agency's sick leave payout was less than required by Department of Transformation and Shared Services – Office of Personnel Management (DTSS-OPM) Policy #54, which is based on Ark. Code Ann. § 21-4-404. Additionally, we noted one instance, totaling $2,543, in which the Agency's sick leave payout was more than required by DTSS-OPM. The underpayment was caused by a lack of appropriate communication with DTSS-OPM regarding changes to a policy requiring sick leave taken under the Family and Medical Leave Act (FMLA) to be added back to an employee's sick leave balance at retirement/death to calculate the incentive percentage. The overpayment was caused by a lack of appropriate training on the methods used to calculate the sick leave payout.

2021-3 (Continued)

We recommend the Agency make the payment to the retiree or estate of the affected employee to correct the underpayment and consult with DTSS-OPM regarding how the overpayment should be recouped. We also recommend the Agency implement procedures to inform employees about relevant changes to DTSS-OPM policies.

Management response: *The one-time payment of $3,378 was processed in coordination with DTSS-OPM.*

ADWS Payroll has reached out to DTSS-OPM for instructions on how to recoup the overpayment of $2,543.00. It was stated that a collection letter could be sent to the Estate of Judy Everett or an abatement letter to DFA to request forgiveness for the over payment.

Correction preventive measures for future sick leave payments have been implemented as of January 2022, using AASIS ZSICKPAYOUT_RPT.

Correction preventive measures for future communication and training, ADWS Payroll will adhere to DFA AASIS communications announcement regarding procedure changes and updates for payment processing as related.

2021-4 DTSS-OPM Policy Number 23 and Ark. Code Ann. § 21-5-106 authorize annual lump-sum career service payments to reward state employees for their years of service, beginning at 10 years. In our review of 28 career service payments made during the fiscal year, we noted one payment made by the Division of Aeronautics for $1,000, the amount awarded for 15 to 19 years of service, to which the employee was not entitled. The employee who received the erroneous payment began work with the Division of Aeronautics on January 3, 2019, with no prior service that should have been counted toward career service recognition payments. The employee's record in AASIS reflected an extra help/seasonal position with the Department of Parks and Tourism between October 24, 2001 and March 22, 2002, with no other relevant state employment. However, because of errors made by the service bureau when entering the hire in AASIS, the employee's career service date and annual leave accrual dates were not updated from October 24, 2001, which gave the employee 17.2 years more career service credit and generated the payment in the payroll period containing October 24, 2020, the employee's erroneous career service date.

We recommend the Agency work to correct in AASIS both the career service date and leave accrual date for this employee. We also recommend the Agency contact DTSS-OPM for guidance on recouping all overpayments to the employee made because of the erroneous career service and leave accrual dates and work to strengthen internal controls related to the career service and leave accrual dates for employees with prior personnel records in AASIS.

Management response: *The Agency has worked with DFA AASIS and DTSS-OPM and has corrected the career service date and leave accrual rate for this employee. The agency and the employee have worked with DTSS-OPM and have developed and initiated a plan to recoup all overpayments made to the employee.*

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 18, 2022

Exhibit A

DEPARTMENT OF COMMERCE
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2021

	General Fund
ASSETS	
Cash and cash equivalents	$ 298,691,707
Investments	42,698,772
Receivable, net:	
Customer	63,338,109
Interest	93,868
Long term	3,218,988
Other	1,293,910
Due from other state agencies	7,028,364
Due from other governments	15,564,138
Prepaid items	5,022,009
Inventories	199,547
Other assets	6,463,645
TOTAL ASSETS	$ 443,613,057
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable - vendor	$ 5,652,534
Accrued and other current liabilities	25,106,782
Due to other governments	124,301
Due to other state agencies	9,676,992
Unearned income	3,806,723
Total Liabilities	44,367,332
Deferred inflows of resources:	
Related to revenues	11,917,847
Fund balance:	
Nonspendable for:	
Prepaid items	5,022,009
Inventories	199,547
Restricted for:	
Program requirements	13,367,037
Debt service	3,308,713
Other	14,356,791
Committed for:	
Program requirements	40,976,562
Capital projects	1,059,509
Other	232,672,377
Assigned for:	
Capital projects	1,501,686
Other	26,723,615
Unassigned	48,140,032
Total Fund Balance	387,327,878
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 443,613,057

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

DEPARTMENT OF COMMERCE

Exhibit B

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

FOR THE YEAR ENDED JUNE 30, 2021

	General Fund
REVENUES	
Federal grants and reimbursements	$ 215,415,181
Aviation taxes	10,169,257
Licenses and permits	5,479,548
Bank assessment fees	12,730,404
Insurance Department fees	54,397,406
Insurance assessments and premiums	30,631,945
Miscellaneous	8,996,608
TOTAL REVENUES	337,820,349
Less: State Treasury service charge	1,206,562
NET REVENUES	336,613,787
EXPENDITURES	
Salary and benefits	105,567,237
Communication and transportation of commodities	8,078,631
Printing and advertising	1,129,218
Repairing and servicing	1,436,221
Utilities and rent	7,647,963
Travel and subsistence	479,528
Professional services	33,032,615
Insurance and bonds	18,711,916
Other expenses and services	5,959,014
Commodities, materials, and supplies	5,852,289
Assistance, grants, and aid	316,550,832
Refunds, taxes and claims	53,926,432
Debt service:	
Principal	3,255,000
Interest	6,779,014
Capital outlay	1,639,751
TOTAL EXPENDITURES	570,045,661
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(233,431,874)

DEPARTMENT OF COMMERCE

Exhibit B

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

	General Fund
OTHER FINANCING SOURCES (USES)	
Transfers from Proprietary Fund, net	$ 19,976,654
Interagency transfers in:	
General revenue distribution	45,053,504
Federal grants and reimbursements	208,018,162
Educational excellence funds	13,629,077
General improvement funds	36,847,250
Economic development initiative funds	13,188,879
Amendment 82 bond funds	5,288,595
Work force 2000 development funds	4,400,856
Recycling tax credits	16,000,000
Interagency transfers out:	
Federal grants and reimbursements	(41,673,574)
Recycling tax credits to Teacher Retirement	(16,000,000)
Adult basic and general adult education grants	(16,509,032)
Excess Insurance Department funds to general revenue fund	(39,698,450)
Other, net	(12,888,773)
Prior-year refunds to expenditures	2,470,670
Prior-year warrants outlawed and cancelled	721,358
TOTAL OTHER FINANCING SOURCES (USES)	238,825,176
NET CHANGE IN FUND BALANCE	5,393,302
FUND BALANCE - JULY 1	381,934,576
FUND BALANCE - JUNE 30	$ 387,327,878

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

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2021

Exhibit C

		Unemployment Insurance
ASSETS		
Current assets:		
Cash and cash equivalents	$	838,894,186
Receivables:		
Accounts, net		83,698,165
Interest		4,474
Due from other state agencies		433,096
Due from other governments		19,928,003
Total current assets		942,957,924
Noncurrent assets:		
Capital assets - depreciable, net		1,994,444
TOTAL ASSETS	$	944,952,368
LIABILITIES		
Current liabilities:		
Accounts payable	$	47,456,259
Due to other funds		129,740
Due to other governments		12,321,574
Unearned revenue		201,272
Total Liabilities		60,108,845
NET POSITION		
Invested in capital assets		1,994,444
Unrestricted		882,849,079
Total Net Position		884,843,523
TOTAL LIABILITIES AND NET POSITION	$	944,952,368

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

DEPARTMENT OF COMMERCE

Exhibit D

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Unemployment Insurance
OPERATING REVENUES	
Unemployment taxes	$ 118,576,208
Other operating revenues	25,092,531
TOTAL OPERATING REVENUES	143,668,739
OPERATING EXPENSES	
Benefit and aid payments	1,671,139,976
Deprecation and amortization	133,333
TOTAL OPERATING EXPENSES	1,671,273,309
OPERATING INCOME	(1,527,604,570)
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	17,559,513
Grants and contributions	1,581,958,113
TOTAL NONOPERATING REVENUES (EXPENSES)	1,599,517,626
INCOME (LOSS) BEFORE TRANSFERS	71,913,056
Transfers to General Fund, net	(19,976,654)
CHANGE IN NET POSITION	51,936,402
TOTAL NET POSITION - JULY 1	832,907,121
TOTAL NET POSITION - JUNE 30	$ 884,843,523

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

DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit E

	Unemployment Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments of benefits	$ (2,019,457,833)
Unemployment taxes	250,784,386
Other operating receipts (payments)	25,092,532
Net cash provided by (used in) operating activities	(1,743,580,915)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and contributions	1,908,095,975
Transfers out	(19,976,654)
Net cash provided by (used in) noncapital financing activities	1,888,119,321
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale and maturities of investments	5,000,000
Interest and dividends on investments	17,606,121
Net cash provided by (used in) investing activities	22,606,121
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	167,144,527
CASH AND CASH EQUIVALENTS - JULY 1	671,749,659
CASH AND CASH EQUIVALENTS - JUNE 30	$ 838,894,186
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	$ (1,527,604,570)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	133,333
Net changes in assets and liabilities:	
Accounts receivable	132,208,179
Accounts payable and other accrued liabilities	(348,317,857)
Total adjustments	(215,976,345)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (1,743,580,915)

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

DEPARTMENT OF COMMERCE
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS – CUSTODIAL
JUNE 30, 2021

	Custodial Funds
ASSETS	
Cash and cash equivalents	$ 3,743,225
Investments	500,000
Receivables - interest	211
Financial assurance instruments	243,101,233
TOTAL ASSETS	$ 247,344,669
NET POSITION	
Restricted for individuals, organizations, and other governments	$ 247,344,669

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

Exhibit G

DEPARTMENT OF COMMERCE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS – CUSTODIAL
FOR THE YEAR ENDED JUNE 30, 2021

	Custodial Funds
ADDITIONS	
Investment income - net increase (decrease) in fair value of investments	$ (10,242,955)
Seized assets	8,469
Insurance surety deposits	1,903,000
Total additions	(8,331,486)
DEDUCTIONS	
Insurance surety withdrawals	2,448,000
Claims	864
Administrative expenses	1,560
Total deductions	2,450,424
Change in net position amounts held for individuals, organizations and other governments	(10,781,910)
Net position - beginning (as restated)	258,126,579
Net position - ending	$ 247,344,669

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

DEPARTMENT OF COMMERCE

Exhibit H

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				
Federal grants and reimbursements	$ 289,411,152	$ 289,411,152	$ 215,415,181	$ (73,995,971)
Aviation taxes	10,970,861	10,970,861	10,169,257	(801,604)
Licenses and permits	2,500,000	2,500,000	5,479,548	2,979,548
Bank assessment fees	25,580,872	25,580,872	12,730,404	(12,850,468)
Insurance Department fees	36,127,648	36,127,648	54,397,406	18,269,758
Insurance assessments and premiums	36,750,000	36,750,000	30,631,945	(6,118,055)
Miscellaneous	9,014,031	9,014,031	8,996,608	(17,423)
TOTAL REVENUES	410,354,564	410,354,564	337,820,349	(72,534,215)
Less: State Treasury service charge			1,206,562	(1,206,562)
NET REVENUES	410,354,564	410,354,564	336,613,787	(73,740,777)
EXPENDITURES				
Regular salaries	86,461,001	90,552,890	71,844,252	18,708,638
Extra help	4,643,097	5,659,628	3,277,033	2,382,595
Personal services matching	29,581,118	33,343,853	27,237,329	6,106,524
Overtime	1,087,500	5,598,030	2,686,367	2,911,663
Operating expenses	37,198,872	119,265,369	17,948,997	101,316,372
Conference fees and travel	1,864,476	1,269,264	206,171	1,063,093
Professional fees and services	6,195,934	48,358,395	17,789,865	30,568,530
Data processing			28,974	(28,974)
Promotional items	7,500	104,000	23,579	80,421
Assistance, grants, and aids	258,110,794	592,631,886	367,897,172	224,734,714
Unemployment benefits and expenses	2,475,000,000			
Refunds and reimbursements	12,075,781	11,124,053	7,835,816	3,288,237
Claims	20,300,000	31,795,908	16,522,116	15,273,792
Quick action closing fund		75,000,000	30,000,000	45,000,000
Capital outlay	2,695,001	6,773,717	1,022,006	5,751,711
Investments	1,540,000	1,770,975	250,000	1,520,975
Payments on bond		12,300,000	5,288,595	7,011,405
Loans	587,085	661,562	187,389	474,173
Special maintenance	50,000	50,000		50,000
State contribution	2,555			
Marketing and redistribution proceeds		17,847		17,847
Professional and contract services	18,910,363	327,684		327,684
Arkansas River navigation system	2,000,000	1,300,000		1,300,000
Examination travel	20,000			
Cemetery maintenance		50,000		50,000
Travel and subsistence - examinations	100,000			
Healthcare transparency initiative database	3,200,000			
Prepaid funeral benefits	500,000	300,000		300,000
Arkansas multi-agency insurance trust fund	20,000,000	1,000,000		1,000,000
Public school insurance program	20,000,000	5,000,000		5,000,000
Arkansas Health Insurance Marketplace expenses	500,000			
Storm recovery grants	7,579,614			
Field services	325,000	300,000		300,000

DEPARTMENT OF COMMERCE

Exhibit H

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)
EXPENDITURES (continued)				
EPSCOR indirect cost		$ 449,814		$ 449,814
Global business initiatives	$ 900,000			
Rural fire protection grants	1,000,000			
Arkansas manufacturing extension network	257,182			
Technology development	156,975			
State strategic plan		100,000		100,000
Capital improvement projects		92,145,180		92,145,180
Minority and women-owned business loans	500,000	489,629		489,629
Rural services conference fund	100,000			
Science, technology, engineering, and math education	40,000			
Super projects	200,000,000			
Training allowances	4,000,000			
Workforce development grant expenditures	9,000,000			
GED Test Costs	350,000			
Unemployment insurance operating expenses	6,000,000	26,196		26,196
Unemployment insurance modernization		14,000		14,000
TANF / New hire registry	39,879,079	9,500,000		9,500,000
Training trust fund operating expenses	3,256,577			
Annual assessments	26,000			
Excess administration expenditures	10,000,000			
Industry training program	15,000,000	40,000,000		40,000,000
Flood recovery grants	615,710			
EPSCOR track III	400,000	384,100		384,100
Military affairs grant program	750,000	270,000		270,000
Seed capital investments	292,653	113,653		113,653
Project search	2,782,159	782,159		782,159
Workforce improvement grants	3,500,000			
Skills development - apprenticeship program	1,611,456			
Small business innovative research	2,000,000			
County fair improvement grants	100,000			
Arkansas acceleration fund program	6,500,000			
Unemployment insurance advance repayment	1			
Industry training program	1,714,800	214,800		214,800
Industry certification testing	100,000			
Arkansas wine center expenses	1,250,000	1,250,000		1,250,000
State match of federal funds	228,500			
TOTAL EXPENDITURES	3,322,846,783	1,190,294,592	$ 570,045,661	620,248,931
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,912,492,219)	(779,940,028)	(233,431,874)	546,508,154

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

Exhibit H

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Fund, net	$ 8,052,000	$ 8,052,000	$ 19,976,654	$ 11,924,654
Interagency transfers in:				
General revenue distribution	47,029,919	47,029,919	45,053,504	(1,976,415)
Federal grants and reimbursements			208,018,162	208,018,162
Educational excellence funds	17,677,690	17,677,690	13,629,077	(4,048,613)
General improvement funds			36,847,250	36,847,250
Economic development initiative funds			13,188,879	13,188,879
Amendment 82 bond funds			5,288,595	5,288,595
Work force 2000 development funds			4,400,856	4,400,856
Recycling tax credits			16,000,000	16,000,000
Interagency transfers out:				
Federal grants and reimbursements	(35,248,506)	(35,248,506)	(41,673,574)	(6,425,068)
Recycling tax credits to Teacher Retirement			(16,000,000)	(16,000,000)
Adult basic and general adult education grants			(16,509,032)	(16,509,032)
Excess Insurance Department funds to general revenue			(39,698,450)	(39,698,450)
Other, net	3,423,478	3,423,478	(12,888,773)	(16,312,251)
Prior-year refunds to expenditures			2,470,670	2,470,670
Prior-year warrants outlawed and cancelled			721,358	721,358
TOTAL OTHER FINANCING SOURCES (USES)	40,934,581	40,934,581	238,825,176	197,890,595
NET CHANGE IN FUND BALANCE	(2,871,557,638)	(739,005,447)	5,393,302	744,398,749
FUND BALANCE - JULY 1	381,934,576	381,934,576	381,934,576	
FUND BALANCE - JUNE 30	$ (2,489,623,062)	$ (357,070,871)	$ 387,327,878	$ 744,398,749

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 910 of 2019 created the Department of Commerce by combining the administrative functions of the following state entities:

The Adult Education Section of the Department of Career Education.
The Arkansas Deaf and Hearing Impaired Telecommunications Service Corporation.
The Arkansas Department of Aeronautics.
The Development Finance Authority (a component unit of the Agency).
The Arkansas Economic Development Commission.
The Arkansas Economic Development Council.
The Arkansas Housing Trust Fund Advisory Committee.
Arkansas Rehabilitation Services.
The Arkansas Rural Development Commission.
The Arkansas Waterways Commission.
The Arkansas Wine Producers Council.
The Arkansas Workforce Development Board.
The Board of Review.
The Board of the Division of State Services for the Blind.
The Career Education and Workforce Development Board.
The Department of Workforce Services.
The Division of Minority and Women-Owned Business Enterprise of the Arkansas Economic Development Commission.
The Division of Science and Technology of the Arkansas Economic Development Commission.
The Division of State Services for the Blind.
The Governor's Commission on People with Disabilities.
The Office of Skills Development.
The State Bank Department.
The State Banking Board.
The State Board of Embalmers, Funeral Directors, Cemeteries, and Burial Services.
The State Insurance Department.
The State Securities Department.

B. Basis of Presentation – Fund Accounting

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

<u>Governmental Funds</u>

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

<u>Proprietary Funds</u>

<u>Enterprise Funds</u> – Enterprise Funds are used to report operations that are financed and operated in a manner similar to private business where the intent of the Agency is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, federal grants, and other Agency funds. The major fund(s) within this classification that are included in this financial report and a summary of the activity therein are as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Fund Accounting (Continued)

Unemployment Insurance Fund – This fund accounts for the Unemployment Insurance Program administered by the Agency, which includes contributions received from employers, federal grants related to the pandemic, and benefits paid to eligible individuals.

Fiduciary Funds

Trust and Custodial Funds –Trust and Custodial Funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Custodial Funds. The specific activity accounted for at this Agency includes the following:

Custodial funds account for assets held by the Agency as a custodial agent for insurance companies that are required to have a security deposit on hand in the State, as set out in Ark. Code Ann. § 23-63-205, and for insolvent insurance companies who are in receivership.

C. Accounting Restatement

The Agency implemented GASB Statement No. 84, *Fiduciary Activities*, in the fiscal year ended June 30, 2021. GASB Statement No. 84 is required to be implemented retroactively for the cumulative effects of implementation and establishes specific criteria for identifying fiduciary activities. All activities meeting these criteria should now present a statement of fiduciary net position and a statement of changes in fiduciary net position. Under GASB Statement No. 84, a liability to the beneficiaries should only be recognized when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. Another significant change was the renaming of agency funds to custodial funds. The cumulative effect of implementing GASB Statement No. 84 on the beginning net position as previously reported on June 30, 2020, is as follows:

Custodial Funds	
Beginning net position	$ 0
Prior year GASB 84:	
Net fiduciary activities	258,126,579
Beginning net position, restated	$ 258,126,579

D. Basis of Accounting

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in United State Treasury, 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.

F. Deposits and Investments

State Board of Finance Policies

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

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

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

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

Deposits

Deposits are carried at cost and consist of cash in bank, cash in United States Treasury, cash in State Treasury, and certificates of deposit totaling $27,587,321, $823,906,769, $287,996,737, and $31,946,933, 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 $28,936,368 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:

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

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

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

Investment Type	Valuation Method	Amount
General fund		
Negotiable certificates of deposit	Level 1	$ 3,250,188
U.S. government agencies	Level 1	558,107
U.S. treasuries	Level 1	6,794,193
Total		$ 10,602,488

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 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.

For purposes of the statement of cash flows, all highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents.

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
General Fund					
Negotiable certificates of deposit	$ 3,250,188	$ 2,500,365	$ 749,823		
U.S. government agencies	558,107			$ 49,797	$ 508,310
U.S. treasuries	6,794,193	2,049,816	4,744,377		
Total	$ 10,602,488	$ 4,550,181	$ 5,494,200	$ 49,797	$ 508,310

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

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 57% of the Agency's investment maturities are one year or longer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency's exposure to credit risk as of June 30, 2021» is as follows:

Rating	Fair Value
General fund - Unrated	$ 3,250,188

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that investments may not be returned. As of June 30, 2021, none of the Agency's investment balance of $10,602,488 was exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. The Agency places no limit on the amount it may invest in any one issuer. As of June 30, 2021, the Agency has the following investments that represent more than 5% of net investments, excluding the State Treasury Money Management Trust Fund and investments that are fully insured or collateralized such as certificates of deposit:

Negotiable certificates of deposit	31%
U.S. government agencies	5%
U.S. treasuries	64%

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Agency does not have an investment policy that limits investment in foreign currency.

G. 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:

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

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:				
Land	$ 149,076		$ 21	$ 149,055
Improvements	2,408			2,408
Buildings	38,026,869	$ 36,815	18,065,656	19,998,028
Equipment	12,973,802	1,027,822	1,936,506	12,065,118
Infrastructure	21,982			21,982
Construction in progress	1,813,480	527,382	1,813,480	527,382
Other capital assets	19,495,368	1,904,073	650,950	20,748,491
Total governmental activities	$ 72,482,985	$ 3,496,092	$ 22,466,613	$ 53,512,464
Proprietary activities:				
Capital assets, being depreciated:				
Buildings	$ 4,000,000			$ 4,000,000
Equipment	15,124			15,124
Total capital assets, being depreciated	4,015,124			4,015,124
Less accumulated depreciation for:				
Buildings	(1,872,222)	$ (133,334)		(2,005,556)
Equipment	(15,124)			(15,124)
Total accumulated depreciation	(1,887,346)	(133,334)		(2,020,680)
Total proprietary activities, net	$ 2,127,778	$ (133,334)		$ 1,994,444

H. Interfund Balances and Transfers

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Inventories

Inventories represent the cost of consumable supplies and goods on hand at year-end. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories are reported as assets of the respective fund. Inventories, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute "available, spendable financial resources." Inventories are valued for reporting purposes at actual cost.

J. 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."

K. Accounts Receivable

The Agency records amounts receivable in the General Fund at net realizable amounts from defendants, companies, clients, and previous employees. The Agency provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information, and existing economic conditions. As of June 30, 2021, the allowances were as follows:

Type of Receivable	Allowance Amount
Court-ordered restitution on fidelity bonds	$ 2,855,603
Net realizable amounts from insolvent insurance companies	32,752,459
Premium taxes from insurance companies	597,891
Community development block grant loans	4,507,139
Small business loan program	15,750
Revenue bond guaranty notes	4,365,835
Quick action closing loans	600,000
Quick action closing reimbursements	176,547
Science and technology commercialization loans	7,612,699
Alternative finance program - technology equipment loans	309,556
Employee student loan forgiveness program	2,250
Total	$ 53,795,729

The Agency records amounts receivable related to the Unemployment Insurance Program of the Proprietary Fund at net realizable amounts from employers, program participants, and other governmental entities. The Agency provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information, and existing economic conditions. As of June 30, 2021, the allowance was $202,207,417.

L. Accounts Payable

The Agency reports accounts payable related to the Unemployment Insurance Program of the proprietary fund at June 30, 2020, in the amount of $47,456,259. This balance consisted of $34,222,396 in estimated unemployment claims and $13,233,863 in employer contribution credits.

NOTE 1: Summary of Significant Accounting Policies (Continued)

M. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

N. Fund Equity

Fund Balance

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

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

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

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

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

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

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

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

O. 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.

P. Professional Services Contracts Commitments

At June 30, 2021, the Agency had commitments of approximately $87,906,124 for professional services contracts.

NOTE 2: Capital Lease Receivables

In February 2009, a capital lease receivable was entered into with the Arkansas Development Finance Authority (ADFA), a discretely presented component unit of the State, and the Arkansas Economic Development Commission (AEDC), a division of the Arkansas Department of Commerce, as lessors, and Victory Lumber, LLC, as lessee. The capital lease expires February 29, 2024, and bears no interest rate. The original amount of the lease was $927,000, which includes buildings as well as all movable property, fixtures, furniture, and equipment located on the premises. In December 2012, another capital lease receivable was entered into with AEDC, as lessor, and Fiberglass Fabricators, Inc., as lessee. The capital lease expires December 1, 2022, and bears an interest rate of 5.00%. The original amount of the lease was $250,000, which includes buildings, structures, and other improvements located on the premises. There are no contingent rentals or unearned income on either lease at June 30, 2021.

Future amounts to be received as of June 30, 2021, are as follows:

	Principal	Interest	Total
Year ending June 30:			
2022	$ 95,339	$ 1,563	$ 96,902
2023	80,955	235	81,190
2024	48,784		48,784
Total	$ 225,078	$ 1,798	$ 226,876

NOTE 3: Lease Obligations

The Agency has lease agreements for operating space that are accounted for as operating leases. The lease payments are recorded as expenditures over the life of the respective leases. Future minimum commitments under the operating leases as of June 30, 2021, were as follows:

Operating Leases	
Years Ending June 30,	Governmental Activities
2022	$ 4,460,034
2023	3,365,374
2024	530,679
2025	409,334
2026	125,052
2027-2031	350,887
2032-2036	7
2037-2041	5
2042-2046	5
2047-2051	2
Total Minimum Lease Payments	$ 9,241,379
Total Lease Expenditures (2021)	$ 6,886,945

NOTE 4: Related Party Transactions

Arkansas Center for Data Sciences (ACDS) is a nonprofit corporation with whom the Agency has partnered to expand opportunities for apprenticeships in the information technology sector. Secretary of Commerce, Mike Preston, is also a Director of Arkansas for Data Sciences. In fiscal year 2021, the Agency made 13 payments to ACDS totaling $1,231,808 for reimbursement requests submitted for the apprenticeship program.

Custom Air, Inc., is a business with whom the City of Clarendon has an agreement to provide airport management services at the Clarendon Municipal Airport in return for favorable lease terms on the hangars at that airport. Commissioner Michael Hutchins of the Division of Aeronautics is also the president of Custom Air, Inc. In fiscal year 2021, the Division of Aeronautics made $449,488 in grant payments to the City of Clarendon for various projects at the Clarendon Municipal Airport, including the construction of a new hangar and taxiway.

Sources for Community Independent Living Services is a nonprofit corporation with whom Arkansas Rehabilitation Services contracts to provide financial literacy training and benefit planning. Matthew Bronson, a vocational rehabilitation counselor with Arkansas Rehabilitation Services, is also on the board of directors of Sources for Community Independent Living Services. In fiscal year 2021, Arkansas Rehabilitation Services made $283,107 in payments to Sources for Community Independent Living Services for reimbursements related to pre-employment community work incentives initiative.

Yelcot Communications, dba Mountain View Telephone Company, is a for-profit corporation that receives grant funds from the Arkansas Economic Development Commission (AEDC) through the Arkansas Rural Connect Project (“ARC Project”). Richard Lang Zimmerman is the Vice President of Yelcot Communications and is a commissioner on the Arkansas Economic Development Commission. In fiscal year 2021, AEDC made $1,840,948 in payments through the ARC Project to Yelcot Communications, dba Mountain View Telephone Company, for the private expansion of rural broadband coverage.

DEPARTMENT OF COMMERCE
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2021
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2021	2020	2019	2018	2017
General Fund					
Total Assets	$ 443,613,057	$ 436,078,476	$ 144,573,188	$ 119,963,403	$ 186,719,009
Total Liabilities	44,367,332	44,266,905	444,712,622	383,686,909	413,512,364
Total Deferred Inflows of Resources	11,917,847	9,876,995			
Total Fund Equity	387,327,878	381,934,576			
Net Revenues	336,613,787	281,602,298	32,254,735	26,215,816	24,948,880
Total Expenditures	570,045,661	453,089,020	95,359,766	119,388,489	262,775,027
Total Other Financing Sources (Uses)	238,825,176	423,497,047	89,915,199	56,323,905	67,253,841

	For the Year Ended June 30,				
	2021	2020	2019	2018	2017
Proprietary Fund					
Total Assets	$ 944,952,368	$ 1,232,583,920	$ 896,818,581	$ 792,104,621	$ 704,981,183
Total Liabilities	60,108,845	399,676,799	21,029,628	23,465,995	28,008,948
Total Net Position	884,843,523	832,907,121	875,788,953	768,638,626	676,972,235
Total Operating Revenues	143,668,739	137,227,242	193,160,881	207,522,140	251,517,448
Total Operating Expenses	1,671,273,309	1,757,900,633	100,295,901	130,894,902	147,060,836
Net Nonoperating Revenues	1,599,517,626	1,424,643,473	21,573,714	22,550,553	22,894,858
Total Transfers In (Out), Net	(19,976,654)	153,148,086	(7,288,367)	(7,511,400)	(7,964,687)

	For the Year Ended June 30,				
	2021	2020	2019	2018	2017
Fiduciary Funds					
Total Assets	$ 247,344,669	$ 258,135,728	$ 242,827,415	$ 231,879,648	$ 238,816,180
Total Liabilities		258,135,728	242,827,415	231,879,648	238,816,180
Net Position	247,344,669				

Arkansas Economic Development Commission information was used for 2017 – 2019 in the General Fund schedule above. The financial information presented in those engagements did not include any fund equity.

Department of Workforce Services information was used for 2017 – 2019 in the proprietary fund schedule above.

State Insurance Department information was used for the first three years of the fiduciary fund schedule.

Information for the Arkansas Development Finance Authority (ADFA) is contained in Schedules 3, 4, and 5.

DEPARTMENT OF COMMERCE
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2021
(UNAUDITED)

Schedule 2

Board/Commission/Division	Business Area	Assets	Liabilities & Deferred Inflows	Fund Balance	Revenues	Expenditures	Other Financing Sources/(Uses)
Arkansas Burial Association Board	0215		$ 15	$ (15)			
State Board of Embalmers and Funeral Directors	0233		3,000	(3,000)			$ (3,000)
Arkansas Waterways Commission	0341	$ 4,728,479	14,419	4,714,060	$ 2,944,057	$ 644,484	(22,838)
Arkansas Department of Aeronautics	0402	11,040,565	58,940	10,981,625	10,452,178	9,636,810	(18,586)
State Bank Department	0405	25,596,183	480,860	25,115,323	12,536,130	8,979,585	25,610
State Securities Department	0410	4,355,149	2,030,516	2,324,633	5,496,048	3,357,984	(2,639,482)
State Insurance Department	0425	167,221,951	12,234,258	154,987,693	88,624,818	63,566,379	(41,038,882)
Rehabilitation Services	0520	4,696,641	2,230,690	2,465,951	27,747,488	40,497,633	12,401,082
Arkansas Economic Development Commission	0790	139,977,020	17,892,044	122,084,976	35,852,982	271,168,417	239,337,349
Division of Workforce Services	0810	60,572,270	20,603,018	39,969,252	151,778,949	151,617,353	18,773,837
Department of Commerce	9902	25,424,799	737,419	24,687,380	1,181,137	20,577,016	12,010,086
Totals		$ 443,613,057	$ 56,285,179	$ 387,327,878	$ 336,613,787	$ 570,045,661	$ 238,825,176

Information for the Arkansas Development Finance Authority (ADFA) is contained in Schedules 3, 4, and 5.

Schedule 3

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION - ADFA
JUNE 30, 2021
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

	Authority	Component Unit
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current assets:		
Cash and cash equivalents	$ 303,793	$ 3,797
Accrued interest receivable	8,644	1
Accounts receivable	1,151	109
Current portion of:		
Investments	13	
Loans	1,600	212
Total current assets	315,201	4,119
Noncurrent assets:		
Investments:		
Unrestricted	38,445	
Restricted	123,185	26,146
Loans, net of allowance for loan losses of $81,134	444,243	142
Loans to component unit	10,577	
Direct financing leases - restricted	150,088	
Real estate owned	2,882	
Capital assets, net	2,400	
Other assets	1,286	
Total noncurrent assets	773,106	26,288
Total assets	1,088,307	30,407
Deferred outflow of resources:		
Deferred charge on refunding	2,427	
OPEB difference in expected versus actual experience	18	
Changes in OPEB actuarial assumptions and proportions	781	
Pension contributions	466	
Pension differences in expected versus actual experience	65	
Net differences between expected and actual investment earnings	515	
Changes in pension actuarial assumptions	61	
Total deferred outflow of resources	4,333	
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 1,092,640	$ 30,407

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION - ADFA
JUNE 30, 2021
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 3

	Authority	Component Unit
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 1,400	
Accrued interest payable	2,242	$ 278
Unearned fees	230	
Contract obligations	2,788	
Deposits against financing arrangements	101	
Deferred gain on refinancing sale of asset	28	18
Current portion of bonds and notes payable	32,336	
OPEB and pension liabilities	116	
Total current liabilities	39,241	296
Noncurrent liabilities:		
Unearned fees	1,123	
Contract obligations	2,193	
Bonds and notes payable, net of unamortized premiums and discounts and current portion	529,797	22,069
Deposits against financing arrangements	59,734	
Deferred gain on refinancing sale of asset	63	4
OPEB and pension liabilities	9,062	
Other liabilities	358	
Total noncurrent liabilities	602,330	22,073
Total Liabilities	641,571	22,369
Deferred inflow of resources:		
OPEB difference in expected versus actual experience	71	
Changes in OPEB actuarial assumptions and proportions	578	
Pension difference in expected versus actual experience	3	
Changes in pensions actuarial assumptions	83	
Changes in employer pension contribution and share of contributions	282	
Total deferred inflow of resources	1,017	
Net position:		
Invested in capital assets	2,400	
Restricted expendable by bond resolution and programs	301,129	7,881
Restricted, nonexpendable and minority interest		157
Unrestricted	146,523	
Total Net Position	450,052	8,038
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 1,092,640	$ 30,407

Arkansas Development Finance Authority (ADFA) is a component unit of the Department of Commerce. Component units are only included on government-wide financial statements. This financial statement is presented as Other Information and is unaudited.

DEPARTMENT OF COMMERCE

Schedule 4

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – ADFA
FOR THE YEAR ENDED JUNE 30, 2021
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

	Authority	Component Unit
OPERATING REVENUES		
Investment income		
Interest and dividends	$ 6,333	$ 514
Impairment loss		(2,243)
Loans and direct financing leases	23,545	15
Amortization of discounts on loans	3	
Financing fees	10,264	
Net appreciation of investments	(3,351)	
Total investment income	36,794	(1,714)
Other income	1,181	
TOTAL OPERATING REVENUES (LOSSES)	37,975	(1,714)
OPERATING EXPENSES		
Interest and amortization on bonds and notes	16,926	596
Administrative expenses:		
Provision for loan losses	4,707	
Federal financial assistance programs	4,944	
Loan servicing and other contractual services	853	
Special allowance	3,207	
Salaries and benefits	4,371	
Operations and maintenance	1,200	
Other	2,713	255
Total administrative expenses	21,995	255
TOTAL OPERATING EXPENSES	38,921	851
OPERATING INCOME (LOSS)	(946)	(2,565)
NON-OPERATING REVENUES		
Federal grants	15,495	
INCOME (LOSS) BEFORE TRANSFERS	14,549	(2,565)
TRANSFERS IN (OUT)	(525)	
CHANGE IN NET POSITION (DEFICIT)	14,024	(2,565)
TOTAL NET POSITION - JULY 1	436,028	10,664
DISTRIBUTIONS TO MEMBER		(61)
TOTAL NET POSITION - JUNE 30	$ 450,052	$ 8,038

Arkansas Development Finance Authority (ADFA) is a component unit of the Department of Commerce. Component units are only included on government-wide financial statements. This financial statement is presented as Other Information and is unaudited.

DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS - ADFA
FOR THE YEAR ENDED JUNE 30, 2021
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 5

	Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Financing fee income received	$ 9,749
Other received	177
Cash paid to employees	(2,948)
Special allowance paid	(2,940)
Cash received for loan servicing and default management	11
Cash paid for program administration	(9,459)
Net cash provided by (used by) operating activities	(5,410)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from issuance of bonds and notes payable	152,210
Repayments of bonds and notes payable	(89,736)
Cash paid for interest	(13,476)
Nonoperating revenues received	15,495
Transfers, net	(525)
Net cash provided by (used by) noncapital financing activities	63,968
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(51,058)
Maturities of investments	83,938
Interest received on investments	6,472
Interest received on loans	19,196
Principal repayments on loans	48,243
Principal repayments on capital leases	10,077
Loan disbursements	(45,083)
Direct financing lease disbursements	(32,134)
Cash received for financing arrangements	29,858
Sale of investments in state facilities	25,973
Proceeds from sale of real estate owned	260
Purchase of capital assets	(22)
Net cash provided by (used by) investing activities	95,720
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	154,278
CASH AND CASH EQUIVALENTS - JULY 1	149,515
CASH AND CASH EQUIVALENTS - JUNE 30	$ 303,793

DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS - ADFA
FOR THE YEAR ENDED JUNE 30, 2021
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 5

		Authority
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED		
BY OPERATING ACTIVITIES		
Operating income (loss)	$	(946)
Adjustments to reconcile operating income of changes in net		
assets to net cash used by operating activities		
Amortization		247
Accreted deferred financing fees		(207)
Accreted interest on loans		(3,678)
Accreted interest on bonds		3,678
Depreciation of capital assets		839
Provision for loan losses		4,707
Loss on sale of real estate owned		903
Gain on transfer of assets		(1,967)
Net depreciation of investments		3,351
Interest income		(26,175)
Interest paid on bonds and notes		12,998
Changes in operating assets and liabilities:		
Accounts receivable		118
Other assets		(99)
Accounts payable		330
Other liabilities		491
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	$	(5,410)

Arkansas Development Finance Authority (ADFA) is a component unit of the Department of Commerce. Component units are only included on government-wide financials. This financial statement is presented as Other Information and is unaudited.

A. 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 and 2020, were $11,734,351 and $11,189,255, respectively, equal to the required contributions for each year.

B. 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.

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.

C. Compensated Absences – Employee Leave (Continued)

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, 2021 and 2020, amounted to $8,285,583 and $7,647,227, respectively. The net changes to compensated absences payable during the year ended June 30, 2021, amounted to $638,356.

D. Recycling Tax Credit

The Waste Reduction and Recycling Equipment Credit is authorized under Ark. Code Ann. § 26-51-506. Act 748 of 1991, as amended by Act 654 of 1993, authorizes an income tax credit equal to 30% of the cost of waste reduction, reuse or recycling equipment, including the cost of installation of such machinery and equipment. The credit used for a taxable year may not exceed the individual or corporation income tax due. Any unused credit may be carried over for a maximum of three consecutive years, unless the business is a qualified steel mill that has invested more than $200.0 million and then the carry forward period is 14 years. In fiscal year 2017, Arkansas Teacher Retirement System (ATRS), an investor in Big River Steel, negotiated an agreement with the State and Big River Steel. This agreement allowed ATRS to purchase the tax credits totaling $300.0 million from Big River Steel for $161.8 million and sell them back to the state at a rate of $20.0 million in tax credits per year at a discounted price of $16.0 million. As a result of this agreement, which was incorporated into State law, the State considers this a structured payout and has used a discount rate of 3.25% to record an obligation of $187.6 million to ATRS as of the agreement date.

	Principal	Interest	Total
Current year obligation:			
Year ended June 30, 2021	$ 11,254,581	$ 4,745,419	$ 16,000,000

Future amounts required to pay principal and interest on the recycling tax credit obligation at June 30, 2021, were as follows:

Year ending June 30:	Principal	Interest	Total
2022	$ 11,620,355	$ 4,379,645	$ 16,000,000
2023	11,998,016	4,001,984	16,000,000
2024	12,387,952	3,612,048	16,000,000
2025	12,790,560	3,209,440	16,000,000
2026	13,206,253	2,793,747	16,000,000
2027-2031	72,755,186	7,244,814	80,000,000
Total	$ 134,758,322	$ 25,241,678	$ 160,000,000

E. Create Rebate Program

The Create Rebate Program is authorized by the Consolidated Incentives Act of 2003 (Ark. Code Ann. §§ 15-4-2701 – 2714). Financial incentive agreements are offered to non-retail, for-profit businesses in highly competitive circumstances at the discretion of the Director of the Arkansas Economic Development Commission. The agreements can be offered for a period of up to 10 years. Cash payments are based on a company's annual payroll for new, full-time permanent employees.

E. Create Rebate Program (Continued)

To be eligible, a company is required to maintain a minimum payroll of $2.0 million annually for new, full-time permanent employees and file a claim with DFA. No claims may be filed until the minimum annual payroll of $2.0 million is met. The threshold must be met within 24 months of inception of the agreement. The Agency has accrued liabilities in the approximate amount of $268.2 million for the Create Rebate business incentive.

Changes in the balance of Create Rebate business incentives during the current and prior fiscal years are as follows:

	2021	2020
Create Rebate business incentives, beginning of year	$ 250,744,548	$ 226,211,489
Incurred Create Rebate business incentives, net of allowance	30,723,370	42,366,845
Create Rebate business incentives payments/dismissals	(13,268,345)	(17,833,786)
Create Rebate business incentives, end of year	$ 268,199,573	$ 250,744,548
Current Create Rebate business incentives	$ 13,612,963	$ 12,889,191
Noncurrent Create Rebate business incentives	254,586,610	237,855,357

F. General Obligation Amendment 82 Bonds

Amendment 82 to the State Constitution was approved by a vote of the people in 2004 and modified by Amendment 90, which was also approved by a vote of the people in 2010. The amendment authorized the issuance of general obligation bonds for the purpose of financing the costs of infrastructure or other needs to attract large economic development projects. All bonds issued under this authority are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The amendment limits the bonds to be issued to an amount up to 5% of state general revenues collected during the most recent year. The 2014 series, the first issuance under this authority, is for a total of $125.0 million to provide $70.0 million in infrastructure improvements, $50.0 million in a loan, and $5.0 million for issuance costs. No bonds were issued under this act in the 2021 fiscal year. As of June 30, 2021, the future principal and interest payments remaining are as follows:

	2014A Series		
Year Ended June 30,	Principal	Interest	Total
2022	$ 3,340,000	$ 1,944,312	$ 5,284,312
2023	3,435,000	1,849,623	5,284,623
2024	3,540,000	1,745,577	5,285,577
2025	3,650,000	1,634,810	5,284,810
2026	3,775,000	1,509,652	5,284,652
2027-2031	20,945,000	5,485,570	26,430,570
2032-2034	14,640,000	1,219,939	15,859,939
Total	$ 53,325,000	$ 15,389,483	$ 68,714,483