DEPARTMENT OF COMMERCE

Annual Financial Report

June 30, 2023

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF COMMERCE
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Department of Commerce
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2023, 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.

In our opinion, the accompanying 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, 2023; the respective changes in financial position; and, 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.

Basis for Opinions

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

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, 2023; 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.

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 department'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 opinions. 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 department'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 department'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 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

Management is responsible for the other information included in the report. The other information comprises the Schedule of Selected Information, Financial Information by Business Area, Basic Financial Statements of the Arkansas Development Finance Authority (ADFA, a component unit of the Department of Commerce), and Other General Information but does not include the departmental financial statements and our auditor's reports thereon. Our opinions on the departmental financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2024, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of the testing, and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
July 2, 2024
SAC990223

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

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

Kevin William White, CPA, JD
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, 2023, 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 July 2, 2024.

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 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. We identified certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2023-1, that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SCHEDULE OF FINDINGS AND RESPONSES

2023-1 While completing DFA-Office of Accounting's year-end closing book, the Agency makes accounting entries for various purposes, such as the accrual of receivables or payables, estimations of the allowance for doubtful accounts, and the correction of errors noted in the year. Audit procedures detected deficiencies in the following accounting entries:

- Division of Workforce Services (DWS) makes an annual entry to reduce the claimant benefit overpayment receivable by amounts estimated to be uncollectible, based on a rolling schedule of prior-year receivables and collections. Auditor recalculation of DWS' estimate for uncollectible accounts revealed errors in the Agency's calculations. As a result of these miscalculations, net claimant benefit overpayments receivable were overstated by $14,670,625, and net claimant benefit overpayments receivable due back to the federal government were overstated by $8,678,583. A similar issue was also noted in the prior year.

- DWS makes an accrual entry to estimate the amount of Unemployment Insurance (UI) benefits payable to claimants in the subsequent fiscal year, for which claimants filed in the current fiscal year, based on average claim duration, compensable claims in the last week of the year, and average weekly benefit amount. Auditor recalculation of DWS' estimate of UI benefits payable revealed errors in the Agency's calculations that resulted in the accrued liability being understated by $1,062,269.

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 correcting entries in AASIS.

We recommend the State strengthen controls over documentation and related calculations required to book year-end accounting entries.

Management Response:

Claimant Benefit Overpayment Receivables:
Corrections were required to the original calculations used to make the AASIS journal entries. This was due to an error in the calculation of the percentage of overpayments that are considered to be uncollectible, which affected the net claimant benefit overpayments receivable and payable calculations. The spreadsheet used to calculate the amount of future repayments on Claimant Benefit Receivable & the Allowance for Doubtful Accounts contained an error. The column "% Calculated repayments in future fiscal years" incorrectly included the "% Repayments in current fiscal year" which resulted in a higher estimate of collectible receivables. UI Benefits/Accounting and UI Program worked together to correct the formulas in the spreadsheet used in the calculated reserve for doubtful accounts percentage and the overpayment principal balance at June 30, 2023 calculations. However, the final entries were not made prior to the auditor discovering the necessary correction, which led to the finding. Going forward, ADWS staff will be able to use the additional training that has been provided to calculate the amounts more accurately and timely. For future years the UI Program Staff will provide the ADWS UI Assistant Controller with the data needed to prepare the schedule. The ADWS UI Assistant Controller will calculate the final schedules. The ADWS UI Assistant Controller will review the spreadsheet to ensure it is calculating the correct amount of estimated collections. In addition, the ACFR lead staff will also review the final calculation to ensure there are no errors in the calculation before the entries are recorded.

Unemployment Insurance benefits payable:
Corrections were required to the original calculations used to make the AASIS journal entries. There was a math error in the calculation of the UI Benefits payable amount provided by UI Program staff. UI Benefits/Accounting and UI Program worked together to correct the error in the calculated amount due for Unemployment Insurance benefits at June 30, 2023. However, the final entries were not made prior to the auditor discovering the necessary correction, which led to the finding. Going forward, the ADWS UI Assistant Controller will re-calculate and review the final UI Benefits payable schedule to ensure that there are no errors in the computation. The ACFR lead staff will review the final calculation to ensure there are no errors in the calculation before the entries are recorded.

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
July 2, 2024

DEPARTMENT OF COMMERCE
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2023

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	$ 489,295,313
Investments	13,041,960
Receivable, net:	
Customer	67,718,604
Interest	245,224
Leases	12,475
Long-term	2,975,987
Other	970,818
Due from other state agencies	6,448,258
Due from other governments	3,665,317
Prepaid items	3,563,729
Inventories	139,697
Other assets	3,360,843
TOTAL ASSETS	$ 591,438,225
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable - vendor	$ 14,755,963
Accrued and other current liabilities	27,564,705
Due to other governments	147,548
Due to other state agencies	25,916,260
Grants payable	50,665,463
Unearned income	6,947,748
Total Liabilities	125,997,687
Deferred inflows of resources:	
Related to revenues	4,970,390
Fund balance:	
Nonspendable for:	
Prepaid items	3,563,729
Inventories	139,697
Restricted for:	
Program requirements	10,012,446
Debt service	3,360,843
Other	13,795,664
Committed for:	
Program requirements	56,823,051
Capital projects	818,287
Other	302,160,884
Assigned for:	
Capital projects	5,097,901
Other	38,376,248
Unassigned	26,321,398
Total Fund Balance	460,470,148
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 591,438,225

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, 2023

	General Fund
REVENUES	
Federal grants and reimbursements	$ 233,628,020
Aviation taxes	16,732,063
Licenses and permits	6,562,402
Bank assessment fees	14,450,126
Insurance Department fees	57,681,628
Insurance assessments and premiums	43,910,499
Miscellaneous	7,253,663
TOTAL REVENUES	380,218,401
Less: State Treasury service charge	1,481,404
NET REVENUES	378,736,997
EXPENDITURES	
Salary and benefits	102,116,292
Communication and transportation of commodities	4,875,911
Printing and advertising	710,770
Repairing and servicing	1,362,760
Utilities and rent	6,333,385
Travel and subsistence	2,403,181
Professional services	18,067,330
Insurance and bonds	31,386,932
Other expenses and services	3,875,409
Commodities, materials, and supplies	5,818,662
Assistance, grants, and aid	228,918,550
Refunds, taxes, and claims	31,245,800
Debt service:	
Principal	3,435,000
Interest	2,107,751
Capital outlay	3,802,992
TOTAL EXPENDITURES	446,460,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(67,723,728)

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund
OTHER FINANCING SOURCES (USES)	
Transfers from Proprietary Fund, net	$ 24,272,631
Capitalized leases	1,758,324
Interagency transfers in:	
General revenue distribution	50,907,943
Federal grants and reimbursements	7,865,102
Educational excellence funds	15,388,913
General improvement funds	10,515,000
Economic development initiative funds	12,830,881
Amendment 82 bond funds	5,286,885
Work force 2000 development funds	27,899,435
Recycling tax credits	16,000,000
Wood energy tax credits	4,000,000
Interagency transfers out:	
Federal grants and reimbursements	(16,239,058)
Recycling tax credits to Teacher Retirement	(16,000,000)
Adult basic and general adult education grants	(13,063,588)
Excess Insurance Department funds to general revenue fund	(52,290,750)
Other, net	(13,115,984)
Prior-year refunds to expenditures	1,552,880
Prior-year warrants outlawed and cancelled	189,323
TOTAL OTHER FINANCING SOURCES (USES)	67,757,937
NET CHANGE IN FUND BALANCE	34,209
FUND BALANCE - JULY 1	460,435,939
FUND BALANCE - JUNE 30	$ 460,470,148

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

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2023

Exhibit C

		Unemployment Insurance
ASSETS		
Current assets:		
Cash and cash equivalents	$	951,821,226
Investments		3,901,614
Receivables:		
Accounts, net		35,184,888
Interest		15,272
Due from other state agencies		265,621
Due from other governments		423,551
Total current assets		991,612,172
Noncurrent assets:		
Capital assets - depreciable, net		1,727,778
TOTAL ASSETS	$	993,339,950
LIABILITIES		
Current liabilities:		
Accounts payable	$	24,939,957
Investment principal payable		11,149
Due to other funds		10,980
Due to other governments		16,869,066
Total Liabilities		41,831,152
NET POSITION		
Invested in capital assets		1,727,778
Unrestricted		949,781,020
Total Net Position		951,508,798
TOTAL LIABILITIES AND NET POSITION	$	993,339,950

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

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2023

Exhibit D

	Unemployment Insurance
OPERATING REVENUES	
Unemployment taxes	$ 88,961,261
Other operating revenues	21,836,582
TOTAL OPERATING REVENUES	110,797,843
OPERATING EXPENSES	
Benefit and aid payments	71,257,419
Deprecation and amortization	133,333
TOTAL OPERATING EXPENSES	71,390,752
OPERATING INCOME	39,407,091
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	15,928,437
Grants and contributions	(672,504)
TOTAL NON-OPERATING REVENUES (EXPENSES)	15,255,933
INCOME (LOSS) BEFORE TRANSFERS	54,663,024
Transfers to General Fund, net	(24,272,631)
CHANGE IN NET POSITION	30,390,393
TOTAL NET POSITION - JULY 1	921,118,405
TOTAL NET POSITION - JUNE 30	$ 951,508,798

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, 2023

	Unemployment Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments of benefits	$ (68,981,682)
Unemployment taxes	101,013,472
Other operating receipts (payments)	21,836,583
Net cash provided by (used in) operating activities	53,868,373
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and contributions	(94,402)
Transfers out	(24,272,631)
Net cash provided by (used in) noncapital financing activities	(24,367,033)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(3,890,465)
Interest and dividends on investments	15,920,710
Net cash provided by (used in) investing activities	12,030,245
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,531,585
CASH AND CASH EQUIVALENTS - JULY 1	910,289,641
CASH AND CASH EQUIVALENTS - JUNE 30	$ 951,821,226
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	$ 39,407,091
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	12,052,212
Accounts payable and other accrued liabilities	2,275,737
Total adjustments	14,461,282
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 53,868,373
Non-cash investing, capital, and financing activities:	
Principal investment payable	$ 11,149

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

DEPARTMENT OF COMMERCE
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS – CUSTODIAL
JUNE 30, 2023

Exhibit F

		Custodial Funds
ASSETS		
Cash and cash equivalents	$	3,645,616
Investments		501,727
Receivables - interest		253
Financial assurance instruments		216,218,933
TOTAL ASSETS	$	220,366,529
NET POSITION		
Restricted for individuals, organizations, and other governments	$	220,366,529

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, 2023

	Custodial Funds
ADDITIONS	
Investment income - net increase (decrease) in fair value of investments	$ (9,916,530)
Insurance surety deposits	10,965,444
Total additions	1,048,914
DEDUCTIONS	
Insurance surety withdrawals	3,091,000
Claims	119,997
Administrative expenses	1,160
Total deductions	3,212,157
Change in net position amounts held for individuals, organizations and other governments	(2,163,243)
Net position - beginning	222,529,772
Net position - ending	$ 220,366,529

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, 2023

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Federal grants and reimbursements	$ 248,436,973	$ 248,436,973	$ 233,628,020	$ (14,808,953)
Aviation taxes	9,500,000	9,500,000	16,732,063	7,232,063
Licenses and permits	2,667,285	2,667,285	6,562,402	3,895,117
Bank assessment fees	13,000,000	13,000,000	14,450,126	1,450,126
Insurance Department fees	31,565,184	31,565,184	57,681,628	26,116,444
Insurance assessments and premiums	38,500,000	38,500,000	43,910,499	5,410,499
Miscellaneous	10,830,700	10,830,700	7,253,663	(3,577,037)
TOTAL REVENUES	354,500,142	354,500,142	380,218,401	25,718,259
Less: State Treasury service charge			1,481,404	(1,481,404)
NET REVENUES	354,500,142	354,500,142	378,736,997	24,236,855
EXPENDITURES				
Regular salaries	85,974,105	94,761,783	75,575,882	19,185,901
Extra help	4,636,174	4,285,893	1,846,004	2,439,889
Personal services matching	30,140,442	33,933,140	28,852,008	5,081,132
Overtime	1,087,500	1,175,594	14,521	1,161,073
Operating expenses	38,041,163	93,143,123	72,764,267	20,378,856
Conference fees and travel	1,935,061	2,435,603	1,127,797	1,307,806
Professional fees and services	7,577,486	36,369,659	13,931,143	22,438,516
Data processing			30,519	(30,519)
Promotional items	117,500	249,167	130,125	119,042
Assistance, grants, and aids	323,012,702	647,569,804	140,826,796	506,743,008
Unemployment benefits and expenses	5,020,200,000	5,020,200,000	77,270,665	4,942,929,335
Refunds and reimbursements	12,075,781	11,390,266	4,752,902	6,637,364
Claims	20,300,000	31,560,000	23,081,267	8,478,733
Quick action closing fund	3,000,000	3,000,000	5,215	2,994,785
Capital outlay	690,000	6,786,178	584,131	6,202,047
Investments	1,540,000	1,216,528	250,000	966,528
Payments on bond		5,300,000	5,286,885	13,115
Loans	2,087,085	2,087,637	130,598	1,957,039
Special maintenance	50,000	50,000		50,000
State contribution	2,555			
Marketing and redistribution proceeds		75		75
Professional and contract services	26,461,389	50,000		50,000
Arkansas River navigation system	2,000,000			
Examination travel	20,000			
Cemetery maintenance		50,000		50,000
Travel and subsistence - examinations	100,000			
Healthcare transparency initiative database	3,200,000			
Arkansas multi-agency insurance trust fund	20,000,000			
Arkansas Health Insurance Marketplace expenses	500,000			
Storm recovery grants	7,579,614			
Community development block grant		8,898,869		8,898,869
Digital equity planning grant		6,401		6,401
AEDC ARPA		128,301		128,301

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

Exhibit H

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
EXPENDITURES (continued)				
EDA statewide planning grant		$ 7,700		$ 7,700
ARPA capital projects fund - administration		2,000,000		2,000,000
Field services	$ 376,120			
EPSCOR indirect cost		330,000		330,000
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		28,346,546		28,346,546
Minority and women-owned business loans	500,000	685,120		685,120
Super projects	200,000,000			
Reed act funds	3,100,000	1,000,000		1,000,000
Training allowances	4,000,000	2,644,898		2,644,898
Workforce development grant expenditures	4,500,000			
GED test costs	350,000			
Unemployment insurance modernization		725,251		725,251
TANF / New hire registry	39,948,110			
Training trust fund operating expenses	3,256,577			
Loan interest	1	1		1
Annual assessments	26,000			
Excess administration expenditures	10,000,000			
Industry training program	15,000,000			
Skills development - capital projects		40,000,000		40,000,000
STEM program expenses	40,000			
Conference expenses	100,000	24,516		24,516
Expenses and claims	20,500,000	250,000		250,000
Unemployment insurance administration expenses	6,000,000	11,000,000		11,000,000
Airport grant funding and related expenses	12,000,000	12,000,000		12,000,000
Flood recovery grants	615,710	615,710		615,710
EPSCOR track III		3,667		3,667
Military affairs grant program	750,000			
Seed capital investments	292,653			
Unemployment insurance participant contractors	150,000			
Trade adjustment assistance program	7,850,000			
Workforce improvement grants	3,500,000			
Skills development - apprenticeship program	1,611,456			
External evaluators	400,000			
Arkansas acceleration fund program	12,400,000	3,078,188		3,078,188
Unemployment insurance advance repayment	1	1		1
Industry training program	1,714,800	982,562		982,562
Industry certification testing	100,000			
Arkansas wine center expenses	1,250,000	1,250,000		1,250,000
Skills development - capital projects		1,950,000		1,950,000
TOTAL EXPENDITURES	5,964,974,142	6,111,642,181	$ 446,460,725	5,665,181,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,610,474,000)	(5,757,142,039)	(67,723,728)	5,689,418,311

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, 2023

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Fund, net	$ 8,026,000	$ 8,026,000	$ 24,272,631	$ 16,246,631
Capitalized leases			1,758,324	1,758,324
Interagency transfers in:				
General revenue distribution	82,790,931	82,790,931	50,907,943	(31,882,988)
Federal grants and reimbursements			7,865,102	7,865,102
Educational excellence funds	1,166,718	1,166,718	15,388,913	14,222,195
General improvement funds			10,515,000	10,515,000
Economic development initiative funds			12,830,881	12,830,881
Amendment 82 bond funds			5,286,885	5,286,885
Work force 2000 development funds			27,899,435	27,899,435
Recycling tax credits			16,000,000	16,000,000
Wood energy tax credits			4,000,000	4,000,000
Interagency transfers out:				
Federal grants and reimbursements			(16,239,058)	(16,239,058)
Recycling tax credits to Teacher Retirement			(16,000,000)	(16,000,000)
Adult basic and general adult education grants			(13,063,588)	(13,063,588)
Excess Insurance Department funds to general revenue fund			(52,290,750)	(52,290,750)
Other, net	(33,530,081)	(33,530,081)	(13,115,984)	20,414,097
Prior-year refunds to expenditures			1,552,880	1,552,880
Prior-year warrants outlawed and cancelled			189,323	189,323
TOTAL OTHER FINANCING SOURCES (USES)	58,453,568	58,453,568	67,757,937	9,304,369
NET CHANGE IN FUND BALANCE	(5,552,020,432)	(5,698,688,471)	34,209	5,698,722,680
FUND BALANCE - JULY 1	460,435,939	460,435,939	460,435,939	
FUND BALANCE - JUNE 30	$ (5,091,584,493)	$ (5,238,252,532)	$ 460,470,148	$ 5,698,722,680

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 Arkansas 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 funds within this classification that is included in this financial report and a summary of the activity therein is as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting – Fund Accounting (Continued)

Proprietary Funds (Continued)

Unemployment Insurance Fund – This fund accounts for the Unemployment Insurance Program administered by the Agency, which includes contributions received from employers 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. 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.

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.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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

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

Deposits

Deposits are carried at cost and consist of cash in bank, cash in United States Treasury, cash in State Treasury, and certificates of deposit totaling $29,865,130, $937,782,237, $487,621,427, and $501,727, 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, 2023, none of the Agency's bank balance of $30,979,012 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, 2023:

Investment Type	Valuation Method	Amount
General fund		
U.S. government agencies	Level 1	$ 399,192
U.S. treasuries	Level 1	12,642,768
Total		$ 13,041,960

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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.

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, 2023, 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					
U.S. government agencies	$ 399,192			$ 45,427	$ 353,765
U.S. treasuries	12,642,768	$ 10,669,008	$ 1,973,760		
Total	$ 13,041,960	$ 10,669,008	$ 1,973,760	$ 45,427	$ 353,765

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 18% 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, 2023, is as follows:

Rating	Fair Value
General fund	
Unrated	$ 13,041,960

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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, 2023, none of the Agency's investment balance of $13,041,960 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, 2023, 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:

U.S. government agencies	3%
U.S. treasuries	97%

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.

F. 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. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

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

Capital assets activity for the year ended June 30, 2023, was as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 149,055			$ 149,055
Improvements	2,408			2,408
Buildings	20,322,464	$ 62,476	$ 4,903	20,380,037
Equipment	12,256,748	521,689	234,196	12,544,241
Infrastructure	21,982			21,982
Construction in progress	1,100,340		1,100,340	
Other capital assets	20,750,991	1,072,987		21,823,978
Right-to-Use assets:				
RtU buildings	9,204,839	1,758,324	459,677	10,503,486
RtU SBITA		1,445,947		1,445,947
Total governmental activities	$ 63,808,827	$ 4,861,423	$ 1,799,116	$ 66,871,134
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	(2,138,889)	$ (133,333)		(2,272,222)
Equipment	(15,124)			(15,124)
Total accumulated depreciation	(2,154,013)	(133,333)		(2,287,346)
Total proprietary activities, net	$ 1,861,111	$ (133,333)		$ 1,727,778

G. 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.

H. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. 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.”

J. 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, 2023, the allowances were as follows:

Type of Receivable	Allowance Amount
Court-ordered restitution on fidelity bonds	$ 3,463,356
Net realizable amounts from insolvent insurance companies	32,180,116
Premium taxes from insurance companies	642,943
Community development block grant loans	854,132
Small business loan program	15,750
Arkansas manufacturing solutions fees	1,485
Quick action closing reimbursements	1,543,000
Science and technology commercialization loans	6,229,883
Alternative finance program - technology equipment loans	198,865
Total	$ 45,129,530

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, 2023, the allowance was $161,579,782.

K. Accounts Payable

The Agency reports accounts payable related to the Unemployment Insurance Program of the proprietary fund at June 30, 2023, in the amount of $24,939,957. This balance consisted of $8,975,955 in estimated unemployment claims and $15,964,002 in employer contribution credits.

L. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

M. 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.

N. 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.

O. Professional Services Contracts Commitments

At June 30, 2023, the Agency had commitments of approximately $109,306,284 for professional services contracts.

NOTE 2: Leases

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

Lease Receivables

As the lessor, the Agency leases out buildings. The related receivables are presented in the Balance Sheet for the amounts equal to the present value of lease payments expected to be received during the lease term. For the year ended June 30, 2023, total lease related inflows recognized by the general fund were $58,596. The Agency had no significant variable payments, residual value guarantees, or lease termination penalties related to its lease agreements as of June 30, 2023.

Lease Obligations

The Agency leases nonfinancial assets including buildings. Since the financial statements of the Agency are presented using the modified accrual basis of accounting, no liability or leased asset is reflected on the balance sheet. Additional details regarding leased assets and related obligations are presented in Note 1.F. and Other General Information, respectively.

Schedule 1

DEPARTMENT OF COMMERCE
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2023
(UNAUDITED)

	For the Year Ended June 30,				
	2023	2022	2021	2020	2019
General Fund					
Total Assets	$ 591,438,225	$ 653,173,879	$ 443,613,057	$ 436,078,476	$ 144,573,188
Total Liabilities	125,997,687	184,990,066	44,367,332	44,266,905	444,712,622
Total Deferred Inflows of Resources	4,970,390	7,747,874	11,917,847	9,876,995	
Total Fund Equity	476,470,148	460,435,939	387,327,878	381,934,576	
Net Revenues	378,736,997	328,581,667	336,613,787	281,602,298	32,254,735
Total Expenditures	446,460,725	580,681,343	570,045,661	453,089,020	95,359,766
Total Other Financing Sources (Uses)	67,757,937	325,207,737	238,825,176	423,497,047	89,915,199

	For the Year Ended June 30,				
	2023	2022	2021	2020	2019
Proprietary Fund					
Total Assets	$ 993,339,950	$ 967,736,153	$ 944,952,368	$ 1,232,583,920	$ 896,818,581
Total Liabilities	41,831,152	46,617,748	60,108,845	399,676,799	21,029,628
Total Net Position	951,508,798	921,118,405	884,843,523	832,907,121	875,788,953
Total Operating Revenues	110,797,843	136,914,409	143,668,739	137,227,242	193,160,881
Total Operating Expenses	71,390,752	114,733,187	1,671,273,309	1,757,900,633	100,295,901
Net Nonoperating Revenues	15,255,933	31,475,274	1,599,517,626	1,424,643,473	21,573,714
Total Transfers In (Out), Net	(24,272,631)	(17,381,614)	(19,976,654)	153,148,086	(7,288,367)

	For the Year Ended June 30,				
	2023	2022	2021	2020	2019
Fiduciary Funds					
Total Assets	$ 220,366,529	$ 222,529,772	$ 247,344,669	$ 258,135,728	$ 242,827,415
Total Liabilities				258,135,728	242,827,415
Net Position	220,366,529	222,529,772	247,344,669		

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

Department of Workforce Services information was used for 2019 in the Proprietary Fund schedule above.

State Insurance Department information was used for 2019 in the Fiduciary Fund schedule above.

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, 2023
(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)			
Arkansas Waterways Commission	0341	$ 6,321,308	17,528	6,303,780	$ 2,647,551	$ 3,666,881	$ 202,058
Arkansas Department of Aeronautics	0402	21,221,262	1,093	21,220,169	16,217,959	9,603,274	(68,428)
State Bank Department	0405	30,700,272	8,459	30,691,813	14,236,551	11,356,255	62,423
State Securities Department	0410	4,673,606	2,276,935	2,396,671	6,587,224	3,652,034	(2,905,170)
State Insurance Department	0425	182,894,774	16,198,741	166,696,033	104,696,791	79,035,892	(53,043,226)
Rehabilitation Services	0520	7,201,890	1,135,406	6,066,484	41,541,617	57,573,760	15,350,717
Arkansas Economic Development Commission	0790	203,020,216	94,375,782	108,644,434	29,934,710	140,102,005	95,997,182
Division of Workforce Services	0810	81,364,778	14,255,083	67,109,695	161,758,735	127,864,872	(21,690,096)
Department of Commerce	9902	54,040,119	2,696,035	51,344,084	1,115,859	13,605,752	33,852,477
Totals		$ 591,438,225	$ 130,968,077	$ 460,470,148	$ 378,736,997	$ 446,460,725	$ 67,757,937

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

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – ADFA
JUNE 30, 2023
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 3

	Authority	Component Unit
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current assets:		
Cash and cash equivalents	$ 297,648	$ 2,445
Accrued interest receivable	2,643	3
Accounts receivable	3,936	41
Current portion of:		
Investments	17,620	
Loans	2,780	125
Total current assets	324,627	2,614
Noncurrent assets:		
Investments:		
Unrestricted	66,259	
Restricted	88,141	19,881
Loans, net of allowance for loan losses of $78,101	479,376	
Loans to Component Unit	2,661	
Capital assets, net	2,167	
Other assets	2,038	
Total noncurrent assets	640,642	19,881
Total assets	965,269	22,495
Deferred outflow of resources:		
OPEB difference in expected versus actual experience	37	
Changes in OPEB actuarial assumptions and proportions	334	
Pension contributions, net differences, and changes in share of	482	
Pension differences in expected versus actual experience	91	
Net differences between expected and actual investment earnings	798	
Total deferred outflow of resources	1,742	
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 967,011	$ 22,495

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – ADFA
JUNE 30, 2023
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 3

	Authority	Component Unit
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 4,106	$ 38
Accrued interest payable	1,735	12
Unearned fees	191	
Contract obligations	6,743	
Deferred gain on refinancing sale of asset	23	
Current portion of bonds and notes payable	24,982	
OPEB and pension liabilities	84	
Total current liabilities	37,864	50
Noncurrent liabilities:		
Unearned fees	696	
Contract obligations	2,049	
Bonds and notes payable, net of unamortized premiums and discounts and current portion	382,706	2,635
Deposits against financing arrangements	51,614	
Deferred gain on refinancing sale of asset	243	
OPEB and pension liabilities	5,791	
Other liabilities	697	
Total noncurrent liabilities	443,796	2,635
Total Liabilities	481,660	2,685
Deferred inflow of resources:		
OPEB difference in expected versus actual experience	240	
Changes in OPEB actuarial assumptions and proportions	804	
Pension difference in expected versus actual experience	46	
Changes in employer pension contribution and share of contributions	465	
Lease obligations	706	
Total deferred inflow of resources	2,261	
Total liabilities and deferred inflow of resources	483,921	2,685
Net position:		
Invested in capital assets	2,167	
Restricted expendable by bond resolution and programs	329,240	19,280
Restricted, nonexpendable and minority interest		530
Unrestricted	151,683	
Total Net Position	483,090	19,810
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 967,011	$ 22,495

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 by Arkansas Legislative Audit. ADFA is independently audited by Frost, PLLC, and these financials were obtained directly from the FY2023 audit report at https://adfa.arkansas.gov/financial-statements.

DEPARTMENT OF COMMERCE Schedule 4

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – ADFA

FOR THE YEAR ENDED JUNE 30, 2023

(UNAUDITED)

(EXPRESSED IN THOUSANDS)

	Authority	Component Unit
OPERATING REVENUES		
Investment income (loss)		
Interest and dividends	$ 10,006	$ 555
Impairment loss		(2,073)
Loans and direct financing leases	20,038	15
Amortization of discounts on loans	2	
Financing fees	5,793	
Net depreciation of investments	(6,178)	
Total investment income (loss)	29,661	(1,503)
Special allowance	532	
Other income / gain on sale of loans	756	
TOTAL OPERATING REVENUES (LOSSES)	30,949	(1,503)
OPERATING EXPENSES		
Interest and amortization on bonds and notes	19,490	78
Administrative expenses:		
Recovery of loan losses	(1,329)	
Federal financial assistance programs	38,280	
Loan servicing and other contractual services	398	
Salaries and benefits	3,726	
Operations and maintenance	2,360	
Other	1,760	249
Total administrative expenses	45,195	249
TOTAL OPERATING EXPENSES	64,685	327
OPERATING INCOME (LOSS)	(33,736)	(1,830)
NON-OPERATING REVENUES		
Federal grants	30,243	
INCOME (LOSS) BEFORE TRANSFERS	(3,493)	(1,830)
TRANSFERS IN (OUT)	(2,381)	1,842
CHANGE IN NET POSITION (DEFICIT)	(5,874)	12
TOTAL NET POSITION - JULY 1	488,964	19,798
TOTAL NET POSITION - JUNE 30	$ 483,090	$ 19,810

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DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS – ADFA
FOR THE YEAR ENDED JUNE 30, 2023
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 5

	Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Financing fee income received	$ 6,099
Other received / gain on sale of loans	756
Cash paid to employees	(3,318)
Special allowance received	532
Cash paid for loan servicing and default management	(332)
Cash paid for program administration	(41,892)
Net cash provided by (used by) operating activities	(38,155)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from issuance of bonds and notes payable	15,356
Repayments of bonds and notes payable	(113,621)
Cash paid for interest	(13,525)
Nonoperating revenues received	30,243
Transfers, net	(2,381)
Net cash provided by (used by) noncapital financing activities	(83,928)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(72,256)
Maturities of investments	77,553
Interest received on investments	9,285
Interest received on loans	22,646
Principal repayments on loans	147,537
Loan disbursements	(36,065)
Cash paid for financing arrangements	(110)
Purchase of capital assets	(2)
Net cash provided by (used by) investing activities	148,588
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,505
CASH AND CASH EQUIVALENTS - JULY 1	271,143
CASH AND CASH EQUIVALENTS - JUNE 30	$ 297,648

DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS – ADFA
FOR THE YEAR ENDED JUNE 30, 2023
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 5

		Authority
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$	(33,736)
Adjustments to reconcile operating income of changes in net assets to net cash used by operating activities		
Amortization		3,370
Accreted deferred financing fees		(171)
Accreted interest on loans		(3,437)
Accreted interest on bonds		3,437
Depreciation of capital assets		99
Recovery of loan losses		(1,329)
Net depreciation of investments		6,178
Interest income		(26,602)
Interest paid on bonds and notes		13,228
Changes in operating assets and liabilities:		
Accounts receivable		527
Other assets		(783)
Accounts payable		895
Other liabilities		169
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	$	(38,155)

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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 5.25% 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, 2023, 2022, and 2021, were $11,763,625, $11,270,800, and $11,734,351, 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 Board of Finance (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DTSS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DTSS-EBD is included in the State of Arkansas's Annual Comprehensive Financial Report (ACFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Transformation and Shared Services, 501 Woodlane, Suite 201, Little Rock, Arkansas 72201 or by calling 501-319-6565.

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

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, 2023 and 2022, amounted to $7,099,745 and $8,037,333, respectively. The net changes to compensated absences payable during the year ended June 30, 2023 amounted to ($937,588).

D. Leases

The Agency has acquired property by entering into a contract that conveys control of the right to use another entity's nonfinancial asset which is treated as a lease under the Governmental Accounting Standards Board Statement No. 87 (GASB 87). For more information on the Agency's right-to-use assets, refer to Note 1.F. Future amounts required to pay principal and interest on lease obligations as of June 30, 2023, were as follows:

Years Ending June 30,	Principal	Interest	Total
2024	$ 1,568,035	$ 142,643	$ 1,710,678
2025	1,232,879	111,963	1,344,842
2026	911,650	87,582	999,232
2027	692,074	69,131	761,205
2028	566,714	54,829	621,543
2029-2033	2,051,093	101,337	2,152,430
Totals	$ 7,022,445	$ 567,485	$ 7,589,930

E. 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 million; 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 the 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.

E. Recycling Tax Credit (Continued)

	Principal	Interest	Total
Current year obligation:			
Year ended June 30, 2023	$ 11,998,016	$ 4,001,984	$ 16,000,000

Future amounts required to pay principal and interest on the recycling tax credit obligation at June 30, 2023, were as follows:

Year ending June 30:	Principal	Interest	Total
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	13,635,456	2,364,544	16,000,000
2028	14,078,609	1,921,391	16,000,000
2029-2031	45,041,120	2,958,880	48,000,000
Total	$ 111,139,950	$ 16,860,050	$ 128,000,000

F. Create Rebate Program

The Create Rebate Program is authorized by the Consolidated Incentives Act of 2003 (Ark. Code Ann. §§ 15-4-2701 – 15-4-2714). 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. 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 the Department of Finance and Administration (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 of approximately $243.3 million for the Create Rebate business incentive.

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

	2023	2022
Create Rebate business incentives, beginning of year	$ 262,466,430	$ 268,199,573
Incurred Create Rebate business incentives, net of allowance	19,934,633	10,941,294
Create Rebate business incentives payments/dismissals	(39,090,582)	(16,674,437)
Create Rebate business incentives, end of year	$ 243,310,481	$ 262,466,430
Current Create Rebate business incentives	$ 14,574,255	$ 14,966,282
Noncurrent Create Rebate business incentives	228,736,226	247,500,148

G. 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 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 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 2023 fiscal year. As of June 30, 2023, the future principal and interest payments remaining are as follows:

	2014A Series		
Year Ended June 30,	Principal	Interest	Total
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	3,905,000	1,380,207	5,285,207
2028	4,040,000	1,246,304	5,286,304
2029-2033	22,560,000	3,870,159	26,430,159
2034	5,080,000	208,839	5,288,839
Total	$ 46,550,000	$ 11,595,548	$ 58,145,548