

DEPARTMENT OF COMMERCE

Annual Financial Report

June 30, 2024

LEGISLATIVE JOINT AUDITING COMMITTEE



DEPARTMENT OF COMMERCE
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Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

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, 2024, 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, 2024, and 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, 2024; 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 opinions are 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 judgment 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 17, 2025, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in dark ink, appearing to read "Kevin White" with a stylized flourish at the end.

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
July 17, 2025
SAC990224

Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
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, 2024, 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 17, 2025.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the Schedule of Findings and Responses below as items 2024-1 and 2024-2, that we consider to be significant deficiencies.

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

2024-1

P1-19-4-2004 of the Department of Finance and Administration (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 (ALA). Losses include...the apparent theft or misappropriation of state funds or property theft." The Arkansas Securities Department notified ALA in May 2025 that an employee of the enforcement section used an Agency travel card to make \$2,900 in unauthorized personal purchases. The employee was authorized to attend a conference from May 6-9, 2025, in Ft. Lauderdale, Florida, as part of his continuing education. While at the conference, the employee made unauthorized purchases of airfare for himself and another person to fly from Ft. Lauderdale to St. Thomas, U.S. Virgin Islands, using the Agency travel card. The employee also made additional unauthorized charges on the Agency travel card to prepay for lodging in St. Thomas for the dates of May 9-18, 2025. A police report was filed by the Agency, and the individual's employment was terminated.

We recommend the Agency continue to monitor and strengthen controls related to travel card purchases to prevent future occurrences of theft.

Management Response: *In response to this determination of fraud, the Arkansas Security Division (ASD) conducted an internal investigation and thoroughly reviewed the controls currently applicable to its travel card program. During its investigation, a refund of \$1,866.42 was received and applied as a prior year refund to expenditure on 7/3/2025. ASD staff sought to confirm the utilization practices of travel cards among state agencies. We were informed by the Office of State Procurement – State Credit Card Section that the practice of using state issued travel cards is very common among state agencies in Arkansas and is permitted by their office. Once confirmed, we evaluated the next steps in modifying our existing process. ASD staff made several modifications to current controls, including reducing the credit limits on travel cards from \$10,000 to \$5,000. Also, as part of a phasing out process, new employees will not be assigned travel cards. While ASD believes this was an isolated incident that could not have been prevented, the staff currently felt it was imperative to conduct a thorough review and make any modifications necessary to implement mitigants to offset the risk of reoccurrence. As recommended in the ALA Audit Finding Summary Form for the year ending June 30, 2025, the ASD will continue to actively monitor controls related to travel card purchases to lessen the probability of fraud occurring in the future.*

2024-2

P4-19-4-2004 of the DFA Office of Accounting Financial Management Guide states that agencies must promptly record amounts due for delivery of goods and services, licenses, unpaid taxes, student loans, special assessments, account receivable, notes receivable and capital leases receivable. It also states that agencies are to develop and follow written criteria for the determination of uncollectible accounts. Our review of the Arkansas Insurance Department's (AID) receivables revealed the following:

- Ark. Code Ann. § 23-90-112 allows the Insurance Commissioner to issue assessments on Arkansas insurers to produce the additional funds needed by the Arkansas Property and Casualty Guaranty Fund to cover the claims of insolvent insurers. On June 17, 2024, an assessment was issued, but the Agency failed to properly record the \$19,904,451 receivable during its year-end closing book process.
- The Agency failed to properly calculate the gross receivable due from insurance companies in receivership resulting in a \$641,283 understatement. Additionally, the Agency failed to follow their methodology for calculating the allowance for doubtful accounts for three receiverships resulting in a \$194,805 understatement. The net effect of these errors is an understatement of the net receivable by \$446,478.

We recommend the Agency review the financial reporting requirements and strengthen controls to ensure proper reporting of accounts receivable and deferred inflows of resources.

Management Response: *The Arkansas Insurance Department agrees with the findings and the following corrective actions have been taken to ensure proper and timely financial reporting.*

Due to the sudden departure of the Liquidation Director and subsequent lack of financial information, receivables were improperly calculated during the year-end close-out. As recommended, corrective actions have been taken to minimize misstatement of financial statements. In response to this finding, the new Liquidation Director has transferred all reporting requirements to the external Accounting Firm for review and processing prior to submission to AID Accounting for recording. AID Accounting has also added additional review procedures for its year-end closing book processes.

Due to increased insurer insolvencies, an assessment was issued in FY25 to cover claim costs, which had not been needed since 2005. Accounting staff were not aware of the assessment resulting in the failure to properly record its receivables during the year-end close-out. AID has implemented new year-end procedures to collect all necessary information from the Liquidation Division to ensure assessments issued are recorded properly.

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
July 17, 2025

DEPARTMENT OF COMMERCE
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2024

Exhibit A

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 468,048,181
Investments	19,050,979
Receivables, net:	
Accounts	74,764,340
Interest	730,845
Leases	56,394
Long-term	3,125,279
Other	1,222,078
Due from other state agencies	6,340,789
Due from other governments	9,813,042
Prepaid items	3,332,864
Inventories	77,375
Other assets	<u>3,500,303</u>
 TOTAL ASSETS	 <u><u>\$ 590,062,469</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable - vendor	\$ 14,507,006
Accrued and other current liabilities	30,881,205
Due to other state agencies	5,895,913
Due to other governments	17,864
Grants payable	1,650,603
Unearned income	<u>2,830,749</u>
Total Liabilities	<u>55,783,340</u>
 Deferred inflows of resources:	
Related to revenues	<u>11,509,226</u>
 Fund balance:	
Nonspendable for:	
Prepaid items	3,332,864
Inventories	77,375
Loans and notes receivable	1,153,767
Restricted for:	
Program requirements	25,378,212
Debt service	3,500,303
Other	2,733,850
Committed for:	
Program requirements	74,255,169
Capital projects	4,270,712
Other	346,019,972
Assigned for - other	31,092,270
Unassigned	<u>30,955,409</u>
Total Fund Balance	<u>522,769,903</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 <u><u>\$ 590,062,469</u></u>

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

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit B

	<u>General Fund</u>
REVENUES	
Federal grants and reimbursements	\$ 212,972,413
Aviation taxes	14,222,798
Licenses and permits	6,671,686
Bank assessment fees	15,790,188
Insurance Department fees	67,154,037
Insurance assessments and premiums	65,247,587
Miscellaneous	<u>9,914,174</u>
 TOTAL REVENUES	 391,972,883
 Less: State Treasury service charge	 <u>1,371,522</u>
 NET REVENUES	 <u>390,601,361</u>
 EXPENDITURES	
Salary and benefits	90,342,143
Communication and transportation of commodities	5,668,986
Printing and advertising	299,574
Repairing and servicing	1,604,683
Utilities and rent	6,818,506
Travel and subsistence	2,527,817
Professional services	21,689,142
Insurance and bonds	56,301,311
Other expenses and services	4,076,245
Commodities, materials, and supplies	3,827,700
Assistance, grants, and aid	203,410,364
Refunds, taxes, and claims	80,157,890
Debt service:	
Principal	3,540,000
Interest	12,038,198
Capital outlay	<u>6,720,681</u>
 TOTAL EXPENDITURES	 <u>499,023,240</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(108,421,879)</u>

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit B

	<u>General Fund</u>
OTHER FINANCING SOURCES (USES)	
Transfers from Proprietary Fund, net	\$ 11,136,182
Capitalized leases	1,156,205
Interagency transfers in:	
General revenue distribution	51,931,784
Federal grants and reimbursements	3,367,033
Educational excellence funds	16,344,546
Restricted reserve funding	16,361,173
Economic development initiative funds	47,818,750
Amendment 82 bond funds	5,278,063
Workforce 2000 development funds	28,652,160
Recycling tax credits	24,800,000
Wood energy tax credits	1,552,000
Interagency transfers out:	
Federal grants and reimbursements	(23,075,547)
Adult basic and general education grants	(15,697,992)
Other, net	(433,847)
Prior-year refunds to expenditures	744,619
Prior-year warrants outlawed and cancelled	<u>786,505</u>
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>170,721,634</u>
 NET CHANGE IN FUND BALANCE	 62,299,755
 FUND BALANCE - JULY 1	 <u>460,470,148</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 522,769,903</u></u>

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

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2024

Exhibit C

	Unemployment Insurance
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 976,282,054
Investments	4,181,599
Receivables:	
Accounts, net	44,704,835
Investment principal	8,627
Interest	16,894
Due from other state agencies	756,452
Due from other governments	527,153
Total current assets	<u>1,026,477,614</u>
Noncurrent assets:	
Capital assets - depreciable, net	<u>1,594,445</u>
 TOTAL ASSETS	 <u><u>\$ 1,028,072,059</u></u>
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 25,314,995
Accrued and other liabilities	12,142
Investment principal payable	10,657
Due to other funds	1,801,527
Due to other governments	15,169,215
 Total Liabilities	 <u>42,308,536</u>
 <u>NET POSITION</u>	
Invested in capital assets	1,594,445
Unrestricted	984,169,078
Total Net Position	<u>985,763,523</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 1,028,072,059</u></u>

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, 2024

Exhibit D

	Unemployment Insurance
OPERATING REVENUES	
Unemployment taxes	\$ 85,083,054
Other operating revenues	<u>10,243,099</u>
TOTAL OPERATING REVENUES	<u>95,326,153</u>
OPERATING EXPENSES	
Benefit and aid payments	72,484,454
Depreciation and amortization	<u>133,333</u>
TOTAL OPERATING EXPENSES	<u>72,617,787</u>
OPERATING INCOME	<u>22,708,366</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	25,129,787
Grants and contributions	<u>(2,447,246)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>22,682,541</u>
INCOME (LOSS) BEFORE TRANSFERS	45,390,907
Transfers to General Fund, net	<u>(11,136,182)</u>
CHANGE IN NET POSITION	34,254,725
TOTAL NET POSITION - JULY 1	<u>951,508,798</u>
TOTAL NET POSITION - JUNE 30	<u><u>\$ 985,763,523</u></u>

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, 2024

Exhibit E

	Unemployment Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments of benefits	\$ (72,109,416)
Payments to suppliers	12,142
Unemployment taxes	75,059,371
Other operating receipts (payments)	10,243,099
Net cash provided by (used in) operating activities	<u>13,205,196</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and contributions	(2,447,246)
Transfers out	<u>(11,136,182)</u>
Net cash provided by (used in) noncapital financing activities	<u>(13,583,428)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(289,105)
Interest and dividends on investments	<u>25,128,165</u>
Net cash provided by (used in) investing activities	<u>24,839,060</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,460,828
CASH AND CASH EQUIVALENTS - JULY 1	<u>951,821,226</u>
CASH AND CASH EQUIVALENTS - JUNE 30	<u>\$ 976,282,054</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	<u>\$ 22,708,366</u>
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	(10,114,379)
Accounts payable and other accrued liabilities	<u>477,876</u>
Total adjustments	<u>(9,503,170)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 13,205,196</u>
Non-cash investing, capital, and financing activities:	
Investment principal receivable	\$ (8,627)
Investment principal payable	10,657

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

DEPARTMENT OF COMMERCE
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS - CUSTODIAL
JUNE 30, 2024

Exhibit F

	<u>Custodial Funds</u>
ASSETS	
Cash and cash equivalents	\$ 3,653,173
Investments	508,583
Receivables - interest	1,153
Financial assurance instruments	<u>213,942,969</u>
 TOTAL ASSETS	 <u><u>\$ 218,105,878</u></u>
 NET POSITION	
Restricted for individuals, organizations, and other governments	<u><u>\$ 218,105,878</u></u>

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

DEPARTMENT OF COMMERCE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
FIDUCIARY FUNDS - CUSTODIAL
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit G

	<u>Custodial Funds</u>
ADDITIONS	
Investment income - net increase (decrease) in fair value of investments	\$ (2,594,896)
Insurance surety deposits	<u>4,340,000</u>
Total additions	<u>1,745,104</u>
DEDUCTIONS	
Insurance surety withdrawals	4,004,444
Claims	394
Administrative expenses	<u>917</u>
Total deductions	<u>4,005,755</u>
Change in net position amounts held for individuals, organizations, and other governments	(2,260,651)
Net position - beginning	<u>220,366,529</u>
Net position - ending	<u><u>\$ 218,105,878</u></u>

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

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit H

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount			
	Original	Final	Actual	
REVENUES				
Federal grants and reimbursements	\$ 292,300,733	\$ 292,300,733	\$ 212,972,413	\$ (79,328,320)
Aviation taxes	10,500,000	10,500,000	14,222,798	3,722,798
Licenses and permits	6,137,000	6,137,000	6,671,686	534,686
Bank assessment fees	12,500,000	12,500,000	15,790,188	3,290,188
Insurance Department fees	32,536,000	32,536,000	67,154,037	34,618,037
Insurance assessments and premiums	58,500,000	58,500,000	65,247,587	6,747,587
Miscellaneous	10,440,781	10,440,781	9,914,174	(526,607)
TOTAL REVENUES	422,914,514	422,914,514	391,972,883	(30,941,631)
Less: State Treasury service charge			1,371,522	(1,371,522)
NET REVENUES	422,914,514	422,914,514	390,601,361	(32,313,153)
EXPENDITURES				
Regular salaries	94,853,054	100,877,520	63,531,170	37,346,350
Extra help	4,743,396	4,055,092	1,543,794	2,511,298
Personal services matching	35,517,337	36,677,365	25,230,057	11,447,308
Overtime	1,087,500	1,115,094	43,450	1,071,644
Operating expenses	38,509,599	160,492,899	112,729,594	47,763,305
Conference fees and travel	2,278,426	2,421,092	1,190,095	1,230,997
Professional fees and services	8,507,187	46,443,092	17,922,258	28,520,834
Data processing			8,470	(8,470)
Promotional items	172,791	328,531	107,092	221,439
Assistance, grants, and aids	374,508,467	539,274,444	234,098,443	305,176,001
Unemployment benefits and expenses	2,020,200,000	14,235,000		14,235,000
Refunds and reimbursements	12,075,781	11,316,266	4,165,522	7,150,744
Claims	20,300,000	43,826,000	31,753,049	12,072,951
Capital outlay	860,000	6,267,593	564,544	5,703,049
Investments	1,540,000	1,237,292	150,000	1,087,292
Payments on bond		5,300,000	5,278,063	21,937
Loans	2,087,085	2,436,999	707,639	1,729,360
State contribution	2,555			
Marketing and redistribution proceeds		108		108
Professional and contract services	26,461,389	50,000		50,000
Arkansas River navigation system	2,000,000			
Airport grant funding and related expenses	27,000,000			
Examination travel	20,000			
Cemetery maintenance		50,000		50,000
Arkansas self-funded cyber response program	10,000,000			
Healthcare transparency initiative database	3,200,000			
Prepaid funeral contracts recovery	500,000			
Arkansas multi-agency insurance trust fund	40,000,000			
Public school insurance program	20,000,000			
Arkansas Health Insurance Marketplace expenses	500,000			
Storm recovery grants	7,579,614			
Disaster recovery grants	8,933,441			
Digital equity planning grant		59,999		59,999
Arkansas rural connect program		3,972,551		3,972,551

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit H

	General Fund			Variance With
	Budgeted Amount			Final Budget
	Original	Final	Actual	Positive
				(Negative)
EXPENDITURES (continued)				
Field services	\$ 376,120			
EPSCOR indirect cost	34,502			
Global business initiatives	900,000			
Rural fire protection grants	1,000,000			
Arkansas manufacturing extension network	257,182			
Technology development	156,975			
Feasibility study	950,000			
Capital improvement projects		\$ 300,000		\$ 300,000
Minority and women-owned business loans	500,000	626,747		626,747
Rural services conference fund	100,000			
Rural Arkansas economic development initiatives	8,800,000			
STEM education program	40,000			
Super projects	200,000,000			
Training allowances	4,000,000			
American Rescue Plan Act - UI integrity and fraud		1,511,788		
GED test costs	350,000			
TANF / New hire registry	43,814,962			
Training trust fund operating expenses	3,256,577			
Annual assessments	26,000			
Unemployment insurance administration expenses	6,000,000	4,994,000		4,994,000
Excess administration expenditures	10,000,000			
Industry training program	15,000,000	25,000,000		
Skills development - capital projects	70,000,000	110,000,000		110,000,000
Flood recovery grants	615,710			
Military affairs grant program	750,000			
Seed capital investments	292,653			
Skills development - apprenticeship program	1,611,456			
Workforce improvement grants	3,500,000			
External evaluators	400,000			
Arkansas acceleration fund program	12,400,000			
Unemployment insurance advance repayment	1	1		1
Industry training program	1,714,800			
Industry certification testing	100,000			
Arkansas wine center expenses	1,250,000	1,250,000		1,250,000
TOTAL EXPENDITURES	3,151,634,560	1,124,119,473	\$ 499,023,240	598,584,445
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	(2,728,720,046)	(701,204,959)	(108,421,879)	592,783,080

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit H

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount			
	Original	Final	Actual	
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Fund, net	\$ 5,026,000	\$ 5,026,000	\$ 11,136,182	\$ 6,110,182
Capitalized leases			1,156,205	1,156,205
Interagency transfers in:				
General revenue distribution	152,860,729	152,860,729	51,931,784	(100,928,945)
Federal grants and reimbursements			3,367,033	3,367,033
Educational excellence funds	14,989,390	14,989,390	16,344,546	1,355,156
Restricted reserve funding			16,361,173	16,361,173
Economic development initiative funds			47,818,750	47,818,750
Amendment 82 bond funds			5,278,063	5,278,063
Work force 2000 development funds			28,652,160	28,652,160
Recycling tax credits			24,800,000	24,800,000
Wood energy tax credits			1,552,000	1,552,000
Interagency transfers out:				
Federal grants and reimbursements			(23,075,547)	(23,075,547)
Adult basic and general adult education grants			(15,697,992)	(15,697,992)
Other, net	(18,942,067)	(18,942,067)	(433,847)	18,508,220
Prior-year refunds to expenditures			744,619	744,619
Prior-year warrants outlawed and cancelled			786,505	786,505
TOTAL OTHER FINANCING SOURCES (USES)	153,934,052	153,934,052	170,721,634	16,787,582
NET CHANGE IN FUND BALANCE	(2,574,785,994)	(547,270,907)	62,299,755	609,570,662
FUND BALANCE - JULY 1	460,470,148	460,470,148	460,470,148	
FUND BALANCE - JUNE 30	\$ (2,114,315,846)	\$ (86,800,759)	\$ 522,769,903	\$ 609,570,662

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

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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.

Governmental Funds

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

Proprietary Funds

Enterprise Funds – 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:

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – 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.

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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 \$22,146,750, \$959,354,036, \$457,593,481, and \$16,822,285, 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, 2024, the reported bank balance of the general fund was \$3,050,808. Of this amount, \$979,271 was uninsured and uncollateralized.

As of June 30, 2024, none of the reported proprietary fund bank balance of \$16,651,731 was exposed to custodial credit risk.

As of June 30, 2024, none of the reported fiduciary funds bank balance of \$4,161,757 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, 2024:

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

<u>Investments at fair value</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
General fund			
U.S. treasuries	\$ 12,677,184	\$ 12,677,184	
Mortgage backed securities	373,795		\$ 373,795
Total general fund	<u>\$ 13,050,979</u>	<u>\$ 12,677,184</u>	<u>\$ 373,795</u>

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

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

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, 2024, the Agency has the following investment balances and segmented maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
General fund					
U.S. treasuries	\$ 12,677,184	\$ 12,677,184			
Mortgage backed securities	373,795			\$ 58,426	\$ 315,369
Total general fund	\$ 13,050,979	\$ 12,677,184		\$ 58,426	\$ 315,369

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 3% of the Agency’s investment maturities are one year or longer.

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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, 2024, is as follows:

General fund	
AAA	\$ 10,179,423
Unrated	<u>2,871,556</u>
Total general fund	<u>\$ 13,050,979</u>

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, 2024, none of the Agency's general fund investments of \$13,050,979 were 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, 2024, 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:

General fund	
U.S. treasuries	97%
Mortgage backed securities	3%

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:

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. 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, 2024, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 149,055			\$ 149,055
Improvements	2,408			2,408
Buildings	20,380,037	\$ 12,623		20,392,660
Equipment	12,544,241	551,922	\$ 813,419	12,282,744
Infrastructure	21,982			21,982
Construction in progress		4,789,122		4,789,122
Other capital assets	21,823,978			21,823,978
Right-to-Use assets:				
RtU buildings	10,503,486	1,156,205	522,220	11,137,471
RtU SBITA	1,445,947			1,445,947
Total governmental activities	<u>\$ 66,871,134</u>	<u>\$ 6,509,872</u>	<u>\$ 1,335,639</u>	<u>\$ 72,045,367</u>
Proprietary activities:				
Capital assets, depreciable:				
Buildings	\$ 4,000,000			\$ 4,000,000
Equipment	<u>15,124</u>			<u>15,124</u>
Total capital assets, depreciable	<u>4,015,124</u>			<u>4,015,124</u>
Less accumulated depreciation:				
Buildings	(2,272,222)	\$ (133,333)		(2,405,555)
Equipment	<u>(15,124)</u>			<u>(15,124)</u>
Total accumulated depreciation	<u>(2,287,346)</u>	<u>(133,333)</u>		<u>(2,420,679)</u>
Total proprietary activities, net	<u>\$ 1,727,778</u>	<u>\$ (133,333)</u>		<u>\$ 1,594,445</u>

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.

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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.

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, 2024, the allowances for the general fund and the proprietary fund were as follows:

Type of Receivable	Allowance Amount
General fund	
Court-ordered restitution on fidelity bonds	\$ 3,349,356
Net realizable amounts from insolvent insurance companies	53,521,920
Premium taxes from insurance companies	710,281
Community development block grant loans	834,826
Small business loan program	15,750
Quick action closing reimbursements	1,543,000
Science and technology commercialization loans	6,337,855
Alternative finance program - technology equipment loans	156,203
Total	<u>\$ 66,469,191</u>
Proprietary fund	
Unemployment Insurance program	<u>\$ 146,954,138</u>

K. Accounts Payable

At June 30, 2024, the Agency reported accounts payable related to the Unemployment Insurance program of the proprietary fund in the amount of \$25,314,995. This balance consisted of \$8,577,415 in estimated unemployment claims and \$16,737,581 in employer contribution credits.

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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.

DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

O. Professional Services Contracts Commitments

At June 30, 2024, the Agency had commitments of approximately \$138,245,450 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, 2024, total lease related inflows recognized by the general fund were \$30,288. The Agency had no significant variable payments, residual value guarantees, or lease termination penalties related to its lease agreements as of June 30, 2024.

Lease and Subscription-Based Information Technology Arrangement (SBITA) Obligations

The Agency leases nonfinancial assets including buildings and another party's IT software, alone or in combination with tangible capital assets. 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.

DEPARTMENT OF COMMERCE
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2024
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2024	2023	2022	2021	2020
General Fund					
Total Assets	\$ 590,062,469	\$ 591,438,225	\$ 653,173,879	\$ 443,613,057	\$ 436,078,476
Total Liabilities	55,783,340	125,997,687	184,990,066	44,367,332	44,266,905
Total Deferred Inflows of Resources	11,509,226	4,970,390	7,747,874	11,917,847	9,876,995
Total Fund Equity	522,769,903	460,470,148	460,435,939	387,327,878	381,934,576
Net Revenues	390,601,361	378,736,997	328,581,667	336,613,787	281,602,298
Total Expenditures	499,023,240	446,460,725	580,681,343	570,045,661	453,089,020
Total Other Financing Sources (Uses)	170,721,634	67,757,937	325,207,737	238,825,176	423,497,047

	For the Year Ended June 30,				
	2024	2023	2022	2021	2020
Proprietary Fund					
Total Assets	\$ 1,028,072,059	\$ 993,339,950	\$ 967,736,153	\$ 944,952,368	\$ 1,232,583,920
Total Liabilities	42,308,536	41,831,152	46,617,748	60,108,845	399,676,799
Total Net Position	985,763,523	951,508,798	921,118,405	884,843,523	832,907,121
Total Operating Revenues	95,326,153	110,797,843	136,914,409	143,668,739	137,227,242
Total Operating Expenses	72,617,787	71,390,752	114,733,187	1,671,273,309	1,757,900,633
Net Nonoperating Revenues	22,682,541	15,255,933	31,475,274	1,599,517,626	1,424,643,473
Total Transfers In (Out), Net	(11,136,182)	(24,272,631)	(17,381,614)	(19,976,654)	153,148,086

	For the Year Ended June 30,				
	2024	2023	2022	2021	2020
Fiduciary Funds					
Total Assets	\$ 218,105,878	\$ 220,366,529	\$ 222,529,772	\$ 247,344,669	\$ 258,135,728
Total Liabilities					258,135,728
Net Position	218,105,878	220,366,529	222,529,772	247,344,669	

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, 2024
(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	\$ 9,246,676	29,095	9,217,581	\$ 3,258,112	\$ 1,426,490	\$ 1,082,181
Arkansas Department of Aeronautics	0402	24,502,728	19,938	24,482,790	14,176,145	11,013,084	99,560
State Bank Department	0405	34,445,588	3,419	34,442,169	15,549,002	11,958,706	160,061
State Securities Department	0410	4,519,844	2,292,963	2,226,881	6,716,888	3,626,068	(3,260,610)
State Insurance Department	0425	198,840,480	17,764,553	181,075,927	133,348,936	128,722,992	9,753,949
Rehabilitation Services	0520	6,303,375	639,379	5,663,996	46,912,925	62,675,807	15,360,393
Arkansas Economic Development Commission	0790	175,993,437	40,201,759	135,791,678	40,264,977	178,516,493	165,398,759
Division of Workforce Services	0810	72,049,949	3,550,480	68,499,469	129,142,706	79,654,656	(48,098,276)
Department of Commerce	9902	64,160,392	2,787,965	61,372,427	1,231,670	21,428,944	30,225,617
Totals		<u>\$ 590,062,469</u>	<u>\$ 67,292,566</u>	<u>\$ 522,769,903</u>	<u>\$ 390,601,361</u>	<u>\$ 499,023,240</u>	<u>\$ 170,721,634</u>

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – ADFA
JUNE 30, 2024
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 3

	<u>Authority</u>	<u>Component Unit</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current assets:		
Cash and cash equivalents	\$ 335,974	\$ 1,345
Accrued interest receivable	3,070	
Accounts receivable	4,080	41
Current portion of:		
Investments	17,766	
Loans	2,626	125
Loans to component unit	2,829	
Total current assets	<u>366,345</u>	<u>1,511</u>
Noncurrent assets:		
Investments:		
Unrestricted	48,238	
Restricted	78,931	24,110
Loans, net of allowance for loan losses of \$80,265	511,118	
Capital assets, net	2,121	
Other assets	1,442	
Total noncurrent assets	<u>641,850</u>	<u>24,110</u>
Total assets	<u>1,008,195</u>	<u>25,621</u>
Deferred outflow of resources:		
OPEB difference in expected versus actual experience	115	
Changes in OPEB actuarial assumptions and proportions	65	
Pension contributions, net differences, and changes in share of	518	
Pension differences in expected versus actual experience	234	
Net differences between expected and actual investment earnings	515	
Changes in pension actuarial assumptions and proportions	194	
Total deferred outflow of resources	<u>1,641</u>	
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 1,009,836</u>	<u>\$ 25,621</u>

DEPARTMENT OF COMMERCE
STATEMENT OF NET POSITION – ADFA
JUNE 30, 2024
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 3

	<u>Authority</u>	<u>Component Unit</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 3,451	\$ 39
Accrued interest payable	1,885	2
Unearned fees	204	
Contract obligations	5,746	
Deferred gain on refinancing sale of asset	25	
Current portion of bonds and notes payable	23,192	2,772
OPEB and pension liabilities	83	
Total current liabilities	<u>34,586</u>	<u>2,813</u>
Noncurrent liabilities:		
Unearned fees	523	
Contract obligations	1,012	
Bonds and notes payable, net of unamortized premiums and discounts and current portion	410,323	
Deposits against financing arrangements	49,127	
Deferred gain on refinancing sale of asset	218	
OPEB and pension liabilities	5,970	
Other liabilities	413	
Total noncurrent liabilities	<u>467,586</u>	
Total Liabilities	<u>502,172</u>	<u>2,813</u>
Deferred inflow of resources:		
OPEB difference in expected versus actual experience	141	
Changes in OPEB actuarial assumptions and proportions	833	
Pension difference in expected versus actual experience	22	
Changes in employer pension contribution and share of contributions	235	
Lease obligations	613	
Total deferred inflow of resources	<u>1,844</u>	
Total liabilities and deferred inflow of resources	<u>504,016</u>	<u>2,813</u>
Net position:		
Invested in capital assets	2,121	
Restricted expendable by bond resolution and programs	344,907	22,278
Restricted, nonexpendable and minority interest		530
Unrestricted	158,792	
Total Net Position	<u>505,820</u>	<u>22,808</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	<u>\$ 1,009,836</u>	<u>\$ 25,621</u>

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 FY2024 audit report at <https://adfa.arkansas.gov/financial-information>.

DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - ADFA
FOR THE YEAR ENDED JUNE 30, 2024
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 4

	Authority	Component Unit
OPERATING REVENUES		
Investment income (loss)		
Interest and dividends	\$ 15,145	\$ 70
Impairment loss		(553)
Loans and direct financing leases	17,553	(3)
Amortization of discounts on loans	1	
Financing fees	5,703	
Net depreciation of investments	1,808	
Total investment income (loss)	40,210	(486)
Other income / gain on sale of loans	74	
TOTAL OPERATING REVENUES (LOSSES)	40,284	(486)
OPERATING EXPENSES		
Interest and amortization on bonds and notes	14,638	88
Administrative expenses:		
Provision for loan losses	2,607	
Federal financial assistance programs	6,399	
Loan servicing and other contractual services	132	
Salaries and benefits	4,321	
Operations and maintenance	1,463	
Other	2,427	237
Total administrative expenses	17,349	237
TOTAL OPERATING EXPENSES	31,987	325
OPERATING INCOME (LOSS)	8,297	(811)
NON-OPERATING REVENUES		
Federal grants	18,725	
INCOME (LOSS) BEFORE TRANSFERS	27,022	(811)
TRANSFERS IN (OUT)	(4,292)	3,810
CHANGE IN NET POSITION (DEFICIT)	22,730	2,999
TOTAL NET POSITION - JULY 1	483,090	19,810
Distributions to member		(1)
TOTAL NET POSITION - JUNE 30	\$ 505,820	\$ 22,808

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DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS - ADFA
FOR THE YEAR ENDED JUNE 30, 2024
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 5

	<u>Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Financing fee income received	\$ 5,218
Other received / gain on sale of loans	74
Cash paid to employees	(3,187)
Cash paid for program administration	(11,871)
Net cash provided by (used by) operating activities	<u>(9,766)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from issuance of bonds and notes payable	50,550
Repayments of bonds and notes payable	(28,087)
Cash paid for interest	(11,124)
Nonoperating revenues received	18,725
Transfers, net	(4,292)
Net cash provided by (used by) noncapital financing activities	<u>25,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(5,535)
Maturities of investments	34,428
Interest received on investments	14,949
Interest received on loans	13,945
Principal repayments on loans	36,019
Loan disbursements	(66,928)
Cash paid for financing arrangements	(4,521)
Purchase of capital assets	(37)
Net cash provided by (used by) investing activities	<u>22,320</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 38,326
 CASH AND CASH EQUIVALENTS - JULY 1	 <u>297,648</u>
 CASH AND CASH EQUIVALENTS - JUNE 30	 <u><u>\$ 335,974</u></u>

DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS - ADFA
FOR THE YEAR ENDED JUNE 30, 2024
(UNAUDITED)
(EXPRESSED IN THOUSANDS)

Schedule 5

	<u>Authority</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED	
BY OPERATING ACTIVITIES	
Operating loss	\$ 8,297
Adjustments to reconcile operating income of changes in net	
assets to net cash used by operating activities	
Amortization	(3)
Accreted deferred financing fees	(158)
Accreted interest on loans	(3,368)
Accreted interest on bonds	3,368
Depreciation of capital assets	83
Provision for loan losses	2,607
Net appreciation of investments	(1,808)
Interest income	(29,321)
Interest paid on bonds and notes	11,274
Changes in operating assets and liabilities:	
Accounts receivable	(144)
Other assets	610
Accounts payable	(655)
Other liabilities	(548)
	<u> </u>
NET CASH PROVIDED BY (USED BY)	
OPERATING ACTIVITIES	<u><u>\$ (9,766)</u></u>

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DEPARTMENT OF COMMERCE
OTHER GENERAL INFORMATION
JUNE 30, 2024
(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 5.50% 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, 2024, 2023, and 2022, were \$9,875,481, \$11,763,625, and \$11,270,800, 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 (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. 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.

DEPARTMENT OF COMMERCE
OTHER GENERAL INFORMATION
JUNE 30, 2024
(UNAUDITED)

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, 2024 and 2023, amounted to \$7,109,700 and \$7,099,745, respectively. The net changes to compensated absences payable during the year ended June 30, 2024, amounted to \$9,955.

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. 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, 2024, were as follows:

Years Ending June 30,	Principal	Interest	Total
2025	\$ 1,749,380	\$ 132,652	\$ 1,882,032
2026	1,144,494	93,759	1,238,253
2027	744,185	71,054	815,239
2028	593,458	55,102	648,560
2029	550,500	42,679	593,179
2030-2034	1,500,593	58,658	1,559,251
Totals	<u>\$ 6,282,610</u>	<u>\$ 453,904</u>	<u>\$ 6,736,514</u>

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.

In fiscal year 2024, Big River Steel expanded the facility and met the requirements for a qualified expansion project under Ark. Code Ann. § 26-51-506. ATRS negotiated to purchase tax credits of \$11.0 million per year for the first 11 years and \$4.0 million in the 12th year. Under Ark. Code Ann. § 26-51-506, the State will purchase the credits from ATRS at a 20% discount and pay \$8.8 million for the first 11 years and \$3.2 million in the 12th year. The State considers this a structured payout and has used a discount rate of 2.96% to record an obligation of \$83.9 million to ATRS as of the agreement date.

DEPARTMENT OF COMMERCE
OTHER GENERAL INFORMATION
JUNE 30, 2024
(UNAUDITED)

E. Recycling Tax Credit (Continued)

	Principal	Interest	Total
Current year obligation:			
Year ended June 30, 2024	\$ 18,704,341	\$ 6,095,659	\$ 24,800,000

Future amounts required to pay principal and interest on the recycling tax credit obligation at June 30, 2024, were as follows:

Year ending June 30:	Principal	Interest	Total
2025	\$ 19,294,041	\$ 5,505,959	\$ 24,800,000
2026	19,902,367	4,897,633	24,800,000
2027	20,529,909	4,270,091	24,800,000
2028	21,177,275	3,622,725	24,800,000
2029	21,845,093	2,954,907	24,800,000
2030-2034	70,428,091	5,571,909	76,000,000
2035-2039	3,107,943	92,057	3,200,000
Total	\$ 176,284,719	\$ 26,915,281	\$ 203,200,000

F. Business Incentives

(1) 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. At June 30, 2024, the Agency has accrued liabilities of approximately \$303.6 million for the Create Rebate business incentive.

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

	2024	2023
Create Rebate business incentives, beginning of year	\$ 243,310,481	\$ 262,466,430
Incurred Create Rebate business incentives, net of allowance	80,890,349	19,934,633
Create Rebate business incentives payments/dismissals	(20,573,772)	(39,090,582)
Create Rebate business incentives, end of year	\$ 303,627,058	\$ 243,310,481
Current Create Rebate business incentives	\$ 15,246,544	\$ 14,574,255
Noncurrent Create Rebate business incentives	288,380,514	228,736,226

DEPARTMENT OF COMMERCE
OTHER GENERAL INFORMATION
JUNE 30, 2024
(UNAUDITED)

F. Business Incentives (Continued)

(2) Motion Picture Program

The Motion Picture Program is authorized by the Digital Product and Motion Picture Industry Development Act of 2009 (Ark. Code Ann. §§ 15-4-2001 – 15-4-2012). The Director of the Arkansas Economic Development Commission may offer to a production company a tax incentive of 25% on all qualified production costs in connection with the production of a state-certified film project and various additional rebates or tax credits related to various aspects of the production costs. The maximum total tax incentives are 30% of the total qualified production expenditures. To qualify for this tax incentive, a production company shall spend at least \$200,000 within a 6-month period in connection with the productions of one project. At June 30, 2024, the Agency has accrued liabilities of approximately \$1.5 million for the Motion Picture business incentive.

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

	2024	2023
Motion Picture business incentives, beginning of year	\$ 713,352	\$ 454,600
Incurred Motion Picture business incentives, net of allowance	2,355,217	1,250,979
Motion Picture business incentives payments/dismissals	(1,568,451)	(992,227)
 Motion Picture business incentives, end of year	 <u>\$ 1,500,118</u>	 <u>\$ 713,352</u>
 Current Motion Picture business incentives	 \$ 1,500,118	 \$ 713,352
Noncurrent Motion Picture business incentives		

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 2024 fiscal year. As of June 30, 2024, the future principal and interest payments remaining are as follows:

2014A Series			
Year Ended June 30,	Principal	Interest	Total
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	4,180,000	1,107,773	5,287,773
2030-2034	23,460,000	2,971,225	26,431,225
Total	<u>\$ 43,010,000</u>	<u>\$ 9,849,971</u>	<u>\$ 52,859,971</u>