DEPARTMENT OF CORRECTIONS

Annual Financial Report

June 30, 2021

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF CORRECTIONS
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Department of Corrections
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Department of Corrections, a department of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department of Corrections' departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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Emphasis of Matter

Departmental Financial Statements

As indicated above, the financial statements of the Department of Corrections are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of Corrections. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2021, the changes in its financial position, or 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.

Implementation of New Accounting Guidance

As discussed in Note 1C to the financial statements, the Agency implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Department of Corrections 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 Corrections individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Corrections' departmental financial statements. The Schedule of Selected Information, Financial Information by Business Area, and Other General Information are presented for purposes of additional analysis and are not a required part of the departmental financial statements. The Schedule of Selected Information, Financial Information by Business Area, and Other General Information have not been subjected to the auditing procedures applied in the audit of the departmental financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2022, on our consideration of the Department of Corrections' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Department of Corrections' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Corrections' internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger Norman

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

Little Rock, Arkansas
August 15, 2022
SAC990321

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Department of Corrections
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund and the aggregate remaining fund information of the Department of Corrections (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department of Corrections' departmental financial statements, and have issued our report thereon dated August 15, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses below as items 2021-1, 2021-2, and 2021-3 that we consider to be significant deficiencies.

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*.

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SCHEDULE OF FINDINGS AND RESPONSES

2021-1 In accordance with Ark. Code Ann. § 25-1-124, the Agency reported to Arkansas Legislative Audit a loss of State funds totaling approximately $8,000. Act 1110 of 2021 allowed the Department of Corrections (Corrections) to use federal stimulus payments received by inmates for their outstanding fines, fees, or court costs owed to local governments. In accordance with the Act, any remaining funds available were distributed in equal parts to the inmate welfare fund and the inmate care and custody fund maintained by Corrections.

Subsequent to enforcement of this Act, inmates filed paperwork with the United States Department of Treasury (Treasury), claiming their stimulus payments were lost/stolen. As a result, Treasury notified the bank, which reclaimed the total amount of stimulus funds from the inmate bank account. Corrections used state funds to reimburse the inmate bank account for these losses, resulting in a loss to the State of approximately $8,000.

In response to a lawsuit filed by inmates, the court ruled that stimulus funds can continue to be used to pay outstanding fines, fees, or court costs; however, any federal relief or stimulus funds remaining after such obligations are satisfied must be returned to the inmate.

We recommend Agency management implement internal controls to ensure that only funds available to inmates are used to pay outstanding fines, fees, or court costs.

2021-2 The Agency did not receive or did not maintain vendor invoices supporting purchases made, as required by Ark. Code Ann. § 19-4-815. Our testing of disbursements made by the various inmate councils within the Division of Correction revealed six payments to vendors totaling $9,362 without invoices or other proper documentation. According to Agency management, all six purchases originated at the Grimes Unit, and disbursements from their inmate council have been suspended.

This lack of compliance with Ark. Code Ann. § 19-4-815 limits the Agency's ability to provide assurance that purchases made are for a legitimate purpose.

We recommend Agency management establish procedures to maintain vendor invoices and other proper supporting documentation, as required by Ark. Code Ann. § 19-4-815.

2021-3 As reported in the prior audit, the Agency is in noncompliance with R4-19-4-501 of the State Financial Management Guide. This rule requires that for all AASIS user agencies, a supervisor must acknowledge the deletion of all cash receipt transactions on a weekly basis.

This issue was addressed with the Agency as part of the FY2020 audit, which was dated July 19, 2021. As part of follow-up procedures in the FY2021 audit, we requested the Agency's documentation supporting compliance with this rule for the 26-week period of July 2021 through December 2021. Twenty-two of the weekly reports were documented as being reviewed and approved on either November 2, 2021 or January 12, 2022, and four weekly reports could not be provided by the Agency. Also, we were unable to determine if the weekly reports included all Department divisions that are AASIS users as the Agency maintained no documentation of the parameters used to create the AASIS reports.

By not complying with the State's financial management guide and ensuring that internal controls over cash receipts are operating effectively, improper accounting and other errors could occur.

We recommend Agency management review R4-19-4-501 of the State Financial Management Guide, establish procedures to comply with the rule, and ensure internal controls over cash receipts are operating effectively.

Management personnel responded as follows:

1. The Department of Corrections (ADC) - In regard to federal stimulus payments:
   a. As per Act 1110 of 2021 the Agency continues to use federal stimulus payments received by inmates for outstanding fines, fees, or court costs owed to local governments.
   b. In an effort to recover lost funds, the Agency has since implemented liens on inmate accounts found to have fraudulently filed forms with the federal government stating that stimulus funds were not received resulting in reclamation of funds.

Management personnel responded as follows: (Continued)

1. The Department of Corrections (ADC) - In regard to federal stimulus payments: (Continued)

   c. On March 16, 2022, U.S. District Court Judge Lee Rudofsky entered an Order, making the preliminary injunction previously issued a permanent injunction. A few highlights of the order:

      i. Judge Rudofsky denied the inmates' request for interest as such payment would be in violation of sovereign immunity.

      ii. The injunction covers all prisoners to whom Act 1110 applied, applies, or could apply.

      iii. The ADC had 90 days from the date of the Order (until June 14, 2022) to return any funds to the inmate that were in the ADC's possession and were not being used to pay off court fines, fees, costs, or restitution.

      iv. For any future confiscations of federal relief or stimulus funds, the ADC would have 90 days from the date of confiscation to determine whether a prisoner had existing court fines, fees, costs, or restitution. If no court fines, fees, costs, or restitution were owed, the money would be returned to the inmate.

2. The Department of Corrections has shut down the Inmate Council in question.

   a. Per Ark Code § 19-4-815, original of supporting documentation to be retained by the agency.

   b. Internal Audit will audit Inmate Councils upon requests of the Director, Warden, or Deputy Warden, and upon change of the Warden position.

   c. Internal Audit will also perform random audit of Inmate Councils statewide.

   d. If an Inmate Council is found noncompliant, it will be deemed inactive until steps have been taken to ensure the Inmate Council is aware and compliant with R1-19-4-505 Internal Control and Ethics Requirements of the State Financial Management Guide and Ark. Code § 19-4-815 Original of supporting documentation.

3. The Department of Corrections, when deleting cash receipts transactions,

   a. Per R4-19-4-501, voided transactions are to be approved and initialed by the Accountant I or Assistant Chief Financial Officer. The Chief Financial Officer will be the Assistant CFO's backup in his absence.

   b. A ZCAJO Cash Journal report is to be run on a weekly basis and deleted documents are to be initialed by the supervisor.

   c. These documents will be retained by Accounting Control.

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 15, 2022

Exhibit A

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

		General Fund
ASSETS		
Cash and cash equivalents	$	69,939,420
Funds held in trust by Arkansas Development Finance Authority		20,708,888
Certificates of deposit		4,299,604
Memberships in cooperative organizations		1,979,194
Due from other state agencies		4,495,717
Due from other governments		231,402
Accounts receivable, net		931,509
Prepaid items		1,063,746
Inventories		16,807,656
TOTAL ASSETS	$	120,457,136
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accrued payroll	$	13,202,793
Due to other state agencies		9,059,314
Due to other governments		3,748,341
Accounts payable		6,250,134
Unearned revenues		23,074
Total Liabilities		32,283,656
Deferred inflows of resources:		
Related to revenues		206,249
Fund balance:		
Nonspendable for:		
Prepaid items		1,063,746
Inventories		16,807,656
Restricted for:		
Capital projects		160,986
Debt service		19,739,337
Program requirements		42,971
Other		171
Committed for:		
Capital projects		37,763
Program requirements		23,513,929
Other		1,158,147
Assigned for:		
Capital projects		10,575,781
Other		13,284,786
Unassigned		1,581,958
Total Fund Balance		87,967,231
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$	120,457,136

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

DEPARTMENT OF CORRECTIONS

Exhibit B

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

	General Fund
REVENUES	
Inmate commissary sales	$ 18,183,142
Probation, parole, and restitution fees	14,728,944
Sale of Agency-produced goods	10,048,612
Licenses and permits	4,456,111
Work release fees	2,330,104
Telephone commissions	1,220,500
Other sales, refunds, and reimbursements	3,960,013
TOTAL REVENUES	54,927,426
Less: State Treasury service charge	459,337
NET REVENUES	54,468,089
EXPENDITURES	
Salary and benefits	309,700,776
Communication and transportation of commodities	5,821,828
Printing and advertising	96,037
Repairing and servicing	13,687,891
Utilities and rent	18,614,534
Travel and subsistence	197,453
Professional services	79,478,526
Insurance and bonds	2,022,823
Other expenses and services	5,743,810
Commodities, materials, and supplies	56,825,685
Assistance, grants, and aid	153,362
Refunds, taxes, and claims	22,288,009
Debt service:	
Principal	5,089,087
Interest	2,787,311
Pay agent fees	186,535
Capital outlay	9,214,128
TOTAL EXPENDITURES	531,907,795
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(477,439,706)

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

OTHER FINANCING SOURCES (USES)		
Interagency transfers in:		
General revenue distribution	$	490,256,370
General improvement funding		3,406,878
Proceeds of financing agreements with Arkansas Development Finance Authority		5,398,344
State education funding to Arkansas Correctional School System		6,459,907
Consumption certification income		5,600,000
Federal grants and reimbursements		6,274,649
Other, net		734,150
Interagency transfers out:		
Excess general revenue funding subsequently transferred to General Revenue Allotment Reserve Fund (GAD)		(14,645,530)
Prior-year refund to expenditures		79,202
Prior-year warrants outlawed and cancelled		18,977
TOTAL OTHER FINANCING SOURCES (USES)		503,582,947
NET CHANGE IN FUND BALANCE		26,143,241
FUND BALANCE - JULY 1		61,823,990
FUND BALANCE - JUNE 30	$	87,967,231

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

DEPARTMENT OF CORRECTIONS

Exhibit C

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

	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Inmate commissary sales	$ 13,700,000	$ 13,700,000	$ 18,183,142	$ 4,483,142
Probation, parole, and restitution fees	11,536,000	11,536,000	14,728,944	3,192,944
Sale of Agency-produced goods	19,500,000	19,500,000	10,048,612	(9,451,388)
Licenses and permits			4,456,111	4,456,111
Work release fees	3,600,000	3,600,000	2,330,104	(1,269,896)
Telephone commissions	2,400,000	2,400,000	1,220,500	(1,179,500)
Other sales, refunds, and reimbursements	3,796,537	3,796,537	3,960,013	163,476
TOTAL REVENUES	54,532,537	54,532,537	54,927,426	394,889
Less: State Treasury service charge			459,337	(459,337)
NET REVENUES	54,532,537	54,532,537	54,468,089	(64,448)
EXPENDITURES				
Regular salaries	245,053,680	220,110,806	213,301,675	6,809,131
Extra help	220,000	120,000	30,023	89,977
Operating expenses	122,736,955	131,302,354	111,614,431	19,687,923
Personal services matching	91,883,144	87,120,826	84,349,046	2,771,780
Grants/aid	1,587,000	725,508	152,470	573,038
Construction	1,870,200	84,020,584		84,020,584
Overtime	2,868,000	6,847,719	6,651,880	195,839
Conference fees and travel	474,899	456,155	19,042	437,113
Professional fees and services	83,287,507	82,846,513	74,865,761	7,980,752
Capital outlay	6,918,866	8,521,220	6,630,544	1,890,676
Refunds/reimbursements	20,453,607	23,688,527	22,261,322	1,427,205
Debt service		5,668,211	6,275,576	(607,365)
Marketing and redistribution proceeds		217,971		217,971
Special maintenance		6,487,750		6,487,750
Paws in Prison program	150,000			
Medical monetary sanctions	1,700,000			
Jail contracts	1,533,000			
Purchase cattle/meat	650,000			
Out-of-state beds	4,427,136			
War Memorial parking	10,000			
Community Correction programs	8,000,000			
Arkansas Correctional School System	6,855,730	6,855,730	5,756,025	1,099,705
TOTAL EXPENDITURES	600,679,724	664,989,874	531,907,795	133,082,079

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

Exhibit C

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (546,147,187)	$ (610,457,337)	$ (477,439,706)	$ 133,017,631
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	473,343,176	473,343,176	490,256,370	16,913,194
General improvement funding			3,406,878	3,406,878
Proceeds of financing agreements with Arkansas Development Finance Authority			5,398,344	5,398,344
State education funding to Arkansas Correctional School System	6,459,524	6,459,524	6,459,907	383
Consumption certification income	5,600,000	5,600,000	5,600,000	
Federal grants and reimbursements			6,274,649	6,274,649
Other, net			734,150	734,150
Interagency transfers out:				
Excess general revenue funding subsequently transferred to General Revenue Allotment Reserve Fund (GAD)			(14,645,530)	(14,645,530)
Prior-year refund to expenditures			79,202	79,202
Prior-year warrants outlawed and cancelled			18,977	18,977
TOTAL OTHER FINANCING SOURCES (USES)	485,402,700	485,402,700	503,582,947	18,180,247
NET CHANGE IN FUND BALANCE	(60,744,487)	(125,054,637)	26,143,241	151,197,878
FUND BALANCE - JULY 1	61,823,990	61,823,990	61,823,990	
FUND BALANCE - JUNE 30	$ 1,079,503	$ (63,230,647)	$ 87,967,231	$ 151,197,878

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

DEPARTMENT OF CORRECTIONS
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND
JUNE 30, 2021

Exhibit D

		Custodial Fund
ASSETS		
Cash and cash equivalents	$	18,084,290
Due from other state agencies		73,185
TOTAL ASSETS	$	18,157,475
NET POSITION RESTRICTED FOR INDIVIDUALS AND ORGANIZATIONS	$	18,157,475

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

DEPARTMENT OF CORRECTIONS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit E

		Custodial Fund
ADDITIONS		
Inmate deposits	$	44,382,427
Donations/deposits to inmate organizations		3,808,155
Interest income		14,663
TOTAL ADDITIONS		48,205,245
DEDUCTIONS		
Inmate payments/purchases		38,246,424
Disbursements by inmate organizations		1,098,696
TOTAL DEDUCTIONS		39,345,120
NET INCREASE (DECREASE) IN NET POSITION		8,860,125
NET POSITION - BEGINNING OF YEAR		9,297,350
NET POSITION - END OF YEAR	$	18,157,475

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, known as the Transformation and Efficiencies Act of 2019, established the Department of Corrections as a cabinet-level department of Arkansas state government by merging the administrative functions of multiple state agencies: the Department of Correction, Department of Community Correction, Arkansas Correctional School System, Arkansas Parole Board, Arkansas Sentencing Commission, Office of the Criminal Detention Facilities Review Committees, and the State Council for Interstate Commission for Adult Offender Supervision. Each state entity transferred to the Department of Corrections continues to exercise the same duties and functions for which it was established as shown below:

Division of Correction – subject to the supervision, control, and direction of the Board of Corrections, jurisdiction over the care and rehabilitation of all offenders committed to the state penitentiary, and management and control over the daily operation of the state penitentiary system.

Division of Community Correction – subject to the supervision, control, and direction of the Board of Corrections; created to manage all community correction facilities and services, execute the orders of the criminal courts of the State of Arkansas, and provide for the supervision, treatment, rehabilitation, and restoration of adult offenders as useful law-abiding citizens within the community.

Arkansas Correctional School System – subject to the supervision, control, and direction of the Board of Corrections; created to provide elementary, secondary, and vocational and technical education to qualified persons incarcerated in facilities of the Division of Correction and the Division of Community Correction or to qualified persons supervised by the Division of Community Correction, including those on probation and parole or any type of post-prison release or transfer who are not high school graduates, irrespective of age. The Riverside Vocational Technical School is included in the Arkansas Correctional School System.

Arkansas Parole Board – created to investigate applications for pardon, commutation of sentence, reprieve, respite, or remission of fine or forfeiture and to make recommendations to the Governor.

Arkansas Sentencing Commission – created to evaluate the effect of sentencing laws, policies, and practices on the criminal justice system; to make appropriate and necessary revision to the sentencing standards; and to make recommendations to the General Assembly on proposed changes of sentencing laws, policies, and practices.

Office of the Criminal Detention Facilities Review Committees – establishes minimum standards for the construction, maintenance, and operation of local, county, regional, or state criminal detention facilities and juvenile detention facilities.

State Council for Interstate Commission for Adult Offender Supervision – created to exercise oversight and advocacy concerning participation in a compact of states (interstate compact) for the supervision of adult offenders who travel across state lines in order to track the location of offenders, transfer supervision authority, and return offenders to the originating jurisdictions when necessary. The Council may perform other duties as may be determined, including development of policy over operations and procedures of the compact within the State.

The Board of Corrections is affiliated with the Department as it appoints the executive head, known as the Secretary of the Department of Corrections, and remains the governing authority of the Division of Correction and the Division of Community Correction. Additionally, the Board of Corrections acts as the Board of Directors of the Arkansas Correctional School System. The Board of Corrections consists of seven voting members: five citizen members, the Chair of the Parole Board, and one member of the criminal justice faculty at any four-year university in Arkansas. Each member is appointed by the Governor for a term of seven years. All members are entitled to a stipend of $85 per day for attendance at official Board meetings.

NOTE 1: Summary of Significant Accounting Policies (Continued)

A. Reporting Entity/History (Continued)

The Arkansas Parole Board consists of seven members appointed by the Governor and confirmed by the Senate to a seven-year term. A Board member shall be a full-time official of the State and shall not have any other employment for the duration of his or her appointment to the Board. All members are entitled to a stipend of $85 per day for attendance at official Board meetings.

The Arkansas Sentencing Commission consists of nine voting members and two advisory members. The voting members are composed of three circuit judges, two prosecuting attorneys, two public defenders or private attorneys whose practices consist primarily of criminal defense work, and two private citizen members. Each voting member is appointed by the Governor for a term of five years. One advisory member each is appointed by the Chair of the Senate Committee on Judiciary and the Chair of the House Committee on Judiciary to serve at their pleasure. All members are entitled to a stipend of $85 per day for attendance at official Board meetings.

The State Council for Interstate Commission for Adult Offender Supervision consists of 11 members: one nonelected person, chosen from a list of five names submitted by the Director of the Division of Community Correction, who will act as the representative of the legislative branch, to be appointed by the President Pro Tempore of the Senate; one non-acting judge, appointed by the Governor as representative of the judicial branch; the seven members of the Board of Corrections representing the executive branch; one representative from a victims group appointed by the Governor; and the Director of the Division of Community Correction, who shall serve as the compact administrator for the state.

In accordance with Ark. Code Ann. § 25-16-902, all members of the boards, commissions, and councils above are entitled to reimbursement of actual expenses incurred in performing official duties at rates not to exceed those established for state employees by state travel regulations.

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 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.

Fiduciary Funds

Custodial Funds – Custodial Funds are used to report resources held by the Agency as an agent for individuals, organizations, other governmental units, and other funds that are not in a trust or similar arrangement. As a custodian, the Department of Corrections holds assets that are for the benefit of inmates and inmate organizations.

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

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 Fiduciary Fund financial statements. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

Governmental Accounting Standards Board (GASB) Statement 84, *Fiduciary Activities*, was implemented for the year ended June 30, 2021. The statement establishes specific criteria for identifying fiduciary activities. All activities meeting these criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. A liability to the beneficiaries should only be recognized when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary(s) to release the assets. As explained in Note 1B, these funds are known as custodial funds. Prior to the adoption of this standard, they were called agency funds.

D. Cash and Cash Equivalents

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

E. Deposits

<u>State Board of Finance Policies</u>

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

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

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

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

<u>Deposits</u>

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling $23,547,585, $61,925,725, and $4,299,604, 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits (Continued)

Deposits (Continued)

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2021, none of the Agency's bank balance of $29,745,689 was exposed to custodial credit risk.

F. Inventories

Inventories represent the cost of commodities to be sold, consumed by inmates and livestock, or used in production. Any amounts on hand at year-end are reported as an asset of the respective fund with the general fund financial statements, recording a nonspendable component of fund balance, indicating that inventories do not constitute "available, spendable financial resources." The purpose of the inventory and the valuation method employed are described below:

Farm Program – Livestock are held by the Agency for resale, consumption, or production. Animals are valued at fair value based on available market prices. Crops in progress (CIP) represent the production costs of the Agency's cash crops that are not available to harvest by June 30. CIP is valued at cumulative costs, including direct expenses and overhead. Harvested crops are Agency-produced crops that have not been sold at year-end or used in the feed mill for livestock consumption. Harvested crops are valued at fair value based on available market prices. Vegetables, meat, and dairy-processed goods are items that have been raised and processed by the Agency but have not been transferred to the central warehouse or a unit kitchen. These items are valued at fair value based on available market prices obtained by the Agency and the State Procurement Director for purchasing similar products and quantities in the open market. Feed, seed, fertilizer, chemicals, fuel, and replacement parts for farm equipment are used in livestock and crop production. These items are valued at average cost if purchased from vendors or available market rates if produced by the Agency. Eggs are produced with the dual purpose of providing for inmate consumption with any excess sold to generate revenue. Inventory for the egg operation consists of eggs and packaging materials. Eggs are valued based on available market prices, and packaging is at average cost.

Industry Program – This inventory category represents raw materials as well as industry program-produced goods in various phases of production. Raw materials are valued at average cost. In-process and completed items are valued at cumulative cost.

Warehouse and Kitchens – This inventory category represents items consumed or used by inmates and can include food, non-food, and janitorial products. These items are valued at average cost if purchased from vendors or available market rates if produced by the Agency.

Inmate Commissaries – This inventory category represents items available for purchase by inmates and can include food, clothing, hygiene, entertainment products, and others. These items are valued at average cost.

Other – This inventory category represents unleaded fuel and construction materials. These items are valued at average cost.

NOTE 1: Summary of Significant Accounting Policies (Continued)

As of June 30, 2021 the value of inventory by type was as follows:

F. Inventories (Continued)

Inventory Type	Value
Farm program	$ 8,768,108
Industry program	1,655,633
Warehouse and kitchens	4,395,577
Inmate commissaries	1,399,316
Other	589,022
Total	$ 16,807,656

G. 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.”

H. Deferred Inflows of Resources

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.

I. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deferred Inflows of Resources (Continued)

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.

I. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

NOTE 2: Restatement of Prior-Year Ending Net Position

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

Custodial Funds		
Beginning net position	$	0
Prior-year GASB 84:		
Net Fiduciary Activities		9,297,350
Total	$	9,297,350

DEPARTMENT OF CORRECTIONS
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2021
(UNAUDITED)

	For the Year Ended June 30,				
	2021^	2020*	2019	2018	2017
General Fund					
Total Assets	$ 120,457,136	$ 112,545,674	$ 69,217,033	$ 72,646,659	$ 72,170,199
Total Liabilities	32,283,656	49,170,575	22,742,855	12,243,884	18,239,021
Total Deferred Inflows of Resources	206,249	1,551,109	87,264	215,074	100,903
Total Fund Equity	87,967,231	61,823,990	46,386,914	60,187,701	53,830,275
Net Revenues	54,468,089	49,133,016	32,961,557	35,268,002	38,300,909
Total Expenditures	531,907,795	553,233,850	438,323,811	415,777,887	408,185,440
Total Other Financing Sources (Uses)	503,582,947	519,537,910	391,561,467	386,867,311	374,422,488
Aggregate Remaining Fund Information					
Total Assets	18,157,475	9,418,046	8,577,851	7,734,183	6,426,892
Total Liabilities		9,418,046	8,577,581	7,734,183	6,426,892
Total Net Position	18,157,475				
Total Additions	48,205,245				
Total Deductions	39,345,120				

^: In fiscal year 2021, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. This statement modified the definition of a liability for custodial funds and added additional reporting requirements to include a Statement of Changes in Fiduciary Net Position, reporting additions and deductions, as a required financial statement.

* Presents information for the cabinet-level Department of Corrections created by Act 910 of 2019. All other fiscal years prior to 2020 include only information for the state agency formerly known as the Arkansas Department of Correction.

Schedule 2

DEPARTMENT OF CORRECTIONS
FINANCIAL INFORMATION BY BUSINESS AREA
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021
(UNAUDITED)

Board/Commission/Division	Assets	Liabilities & Deferred Inflows	Net Revenues	Expenditures	Other Financing Sources/(Uses)
Division of Correction	$ 88,903,007	$ 18,268,101	$ 38,292,987	$ 405,497,001	$ 388,328,235
Division of Community Correction	24,254,512	9,736,546	15,702,819	102,213,956	94,025,942
Department of Corrections	28,269	4,383,266	11,500	14,077,233	10,109,298
Arkansas Correctional School System	6,652,031		460,635	5,756,049	6,459,907
Riverside Vocational Technical School	609,341	1,610	148	2,073,041	2,361,989
Arkansas Parole Board	8,451	91,037		1,932,016	1,938,583
Arkansas Sentencing Commission	1,525	9,345		358,499	358,993
Totals	$ 120,457,136	$ 32,489,905	$ 54,468,089	$ 531,907,795	$ 503,582,947

A. Capital Assets

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

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

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

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land and improvements	$ 26,711,831	$ 37,507		$ 26,749,338
Buildings and improvements	399,975,247	472,802		400,448,049
Equipment	63,958,742	4,505,082	$ 5,138,567	63,325,257
Intangible assets	138,972			138,972
Infrastructure	20,533,687			20,533,687
Assets under construction	9,067,526	12,840,240	390,892	21,516,874
Total governmental activities	$ 520,386,005	$ 17,855,631	$ 5,529,459	$ 532,712,177

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

Plan Description – The Agency contributes to APERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the APERS Board of Trustees. APERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24 of the Arkansas Code Annotated. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-501-682-7855.

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2021, 2020, and 2019, were $32,130,827, $ 33,845,720, and $33,591,314, respectively, equal to the required contributions for each year.

B. Pension Plan (Continued)

Arkansas Teacher Retirement System (ATRS)

Plan Description – The Agency contributes to ATRS, a cost-sharing, multiple-employer defined benefit pension plan administered by the ATRS Board of Trustees. ATRS 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 ATRS as published in Chapter 7 of Title 24 of the Arkansas Code Annotated. ATRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-501-682-1517.

Funding Policy – Contributory plan members are required to contribute 6.50% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14.50% 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 ATRS Board of Trustees. The Agency's contributions to ATRS for the years ended June 30, 2021, 2020, and 2019, were $35,425, $34,164, and $31,327, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Transformation and Shared Services – Employee Benefits Division (DTSS-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DTSS-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DTSS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DTSS-EBD is included in the State of Arkansas's Annual Comprehensive Financial Report (ACFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Transformation and Shared Services, 501 Woodlane, Suite 201, Little Rock, Arkansas 72201 or by calling 1-501-319-6565.

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

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

D. Compensated Absences – Employee Leave

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

D. Compensated Absences – Employee Leave (Continued)

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

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2021 and 2020, amounted to $20,458,321 and $20,153,890, respectively. The net changes to compensated absences payable during the year ended June 30, 2021, amounted to $304,431.

E. Capital Lease

1. On December 1, 2005, the Arkansas Development Finance Authority (ADFA) issued $40,110,000 in State Agencies Facilities Revenue Bonds dated December 1, 2005. The bond proceeds were to be used to finance the costs of acquiring, constructing, and equipping a special-needs prison facility to be located near the city of Malvern. These bonds were subsequently refunded on July 30, 2013, by ADFA through the issuance of $30,960,000 in State Agencies Facilities Revenue Refunding Bonds dated July 30, 2013.

   The Department of Transformation and Shared Services – Division of Building Authority (DBA) entered a lease agreement with ADFA dated December 1, 2005, for the purchase of these prison facilities. DBA subsequently entered a sublease agreement, also dated December 1, 2005, with the Division of Correction for these same facilities. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

2. On September 19, 2017, ADFA issued $17,901,604 in State Agency Energy Conservation Bonds dated September 19, 2017. The bond proceeds are to be used to finance energy efficiency projects in compliance with the rules and regulations established by Ark. Code Ann. § 19-11-1201 known as the Guaranteed Energy Cost Savings Act. The energy conservation measures (project) identified through the Division of Correction's Energy Service Company (contractor) include upgrades at the East Arkansas Regional Unit (EARU) and the Delta Regional Unit to include LED lighting, water systems, HVAC equipment and controls, food waste composting, and an inmate energy education program. Additionally, a solar energy facility will be constructed at EARU.

   To finance the project, the Division of Correction and ADFA simultaneously entered into an assignment agreement and a lease agreement dated September 19, 2017, in which the ownership rights to the project and the right to receive any performance guarantee payments from the contractor are assigned to ADFA and then leased by the Division of Correction. The lease term will end on the later of March 1, 2037, or the date the bonds are paid in full, at which time the Division of Correction has the option to purchase the project for $1. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

3. On September 19, 2017, ADFA issued $9,802,283 in State Agency Energy Conservation Bonds dated September 19, 2017. The bond proceeds are to be used to finance energy efficiency projects in compliance with the rules and regulations established by Ark. Code Ann. § 19-11-1201 known as the Guaranteed Energy Cost Savings Act. The energy conservation measures (project) identified through the Division of Community Correction's Energy Service Company (contractor) include heating, ventilation, and air improvements; lighting retrofitting; water conservation measures; power factor correction; and building envelope upgrades at Community Correction centers throughout the State. Additionally, a solar energy facility will be constructed at the Northeast Arkansas Community Correction Center.

   To finance the project, the Division of Community Correction and ADFA simultaneously entered into an assignment agreement and a lease agreement dated September 19, 2017, in which the ownership rights to the project and the right to receive any performance guarantee payments from the contractor are assigned to ADFA and then leased by the Division of Community Correction.

E. Capital Lease (Continued)

The lease term will end on the later of March 1, 2037, or the date the bonds are paid in full, at which time the Division of Community Correction has the option to purchase the project for $1. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

4. On August 23, 2018, ADFA issued $17,795,000 in State Agencies Facilities Revenue Bonds dated August 23, 2018. The bond proceeds are to be used to finance the costs of the acquisition and renovation of an existing property in the city of North Little Rock to serve as the headquarters of the Division of Community Correction, and the acquisition of an existing building in the city of Fort Smith to serve as the Parole and Probation Office of that area.

   DBA entered a lease agreement with ADFA dated August 23, 2018, for the purchase of these prison facilities. DBA subsequently entered a sublease agreement, also dated August 23, 2018, with the Division of Community Correction for these same facilities. As of June 30, 2021, $64,791 in bond proceeds remained available for project use. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

5. On December 18, 2020, ADFA issued $19,177,303 in State Agency Energy Conservation Bonds dated December 18, 2020. The bond proceeds are to be used to finance energy efficiency projects in compliance with the rules and regulations established by Ark. Code Ann. § 19-11-1201 known as the Guaranteed Energy Cost Savings Act. The energy conservation measures (project) identified through the Division of Correction's Energy Service Company (contractor) include upgrades at the Tucker Unit and the Tucker Maximum Security Unit to include LED lighting, water systems, HVAC equipment and controls, and food waste composting.

   To finance the project, the Division of Correction and ADFA simultaneously entered into an assignment agreement and a lease agreement dated December 18, 2020, in which the ownership rights to the project and the right to receive any performance guarantee payments from the contractor are assigned to ADFA and then leased by the Division of Correction. The lease term will end on the later of December 1, 2040, or the date the bonds are paid in full, at which time the Division of Correction has the option to purchase the project for $1. As of June 30, 2021, $16,761,479 in bond proceeds remained available for project use. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds

Construction and other costs incurred that meet the State's capitalization thresholds are reported on the books of the Department of Corrections as buildings and building improvements. Lease payments are made from general improvement funding appropriated by the Legislature and other available funds of the Division of Correction and the Division of Community Correction.

The leased property, which under GASB Statement No. 62 is treated as a capital lease, is as follows:

Class of Property	Asset Balance June 30, 2021
Buildings and building improvements	$ 78,310,673

The following is a schedule of future minimum lease payments under capital leases together with the present value of the minimum lease payments as of June 30, 2021:

E. Capital Lease (Continued)

Years Ending June 30,	Governmental Fund Types Lease Payments
2022	$ 6,813,912
2023	7,110,180
2024	7,168,366
2025	7,229,753
2026	6,809,902
2027 - 2031	16,632,977
2032 - 2036	17,616,990
2037 - 2041	4,580,315
Total Minimum Lease Payments	73,962,395
Amount representing interest	15,559,162
Present Value of Minimum Lease Payments	$ 58,403,233

F. Loan Payable to Arkansas Development Finance Authority (ADFA)

On June 2, 2009, ADFA issued $29,785,000 in Correctional Facilities Construction Bonds dated May 15, 2009. The bond proceeds were to be used to finance the costs of acquiring, constructing, improving, and equipping capital improvements to various correctional facilities of the Division of Correction. These bonds were subsequently refunded on May 26, 2016, by ADFA through the issuance of $25,760,000 in Correctional Facilities Construction Refunding Bonds dated May 26, 2016.

ADFA entered into a loan agreement with the Division of Correction dated May 15, 2009, whereby the net proceeds from the bond sale will be loaned to the Agency with the terms of the loan equivalent to the bond indenture. The long-term obligation for this loan is reported in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

The following is a schedule of future loan payments under the agreement as of June 30, 2021:

Years Ending June 30,	Principal	Interest	Total
2022	$ 872,917	$ 778,012	$ 1,650,929
2023	907,917	709,737	1,617,654
2024	943,333	673,358	1,616,691
2025	983,333	635,554	1,618,887
2026	1,023,333	596,149	1,619,482
2027 - 2031	5,742,917	2,334,729	8,077,646
2032 - 2036	6,786,667	1,299,411	8,086,078
2037 - 2041	4,442,083	268,445	4,710,528
Totals	$ 21,702,500	$ 7,295,395	$ 28,997,895

Loan payments are made from the Prison Construction Trust Fund. The Trust Fund receives funding from a portion of the sale of annual license plate validation decals in accordance with Ark. Code Ann. § 22-3-1225. These revenues have been pledged to cover the principal and interest requirements on bonds issued by ADFA. The following is a summary of the remaining principal and interest due, the gross pledged revenue collected, and principal and interest paid during the year ended June 30, 2021:

F. Loan Payable to Arkansas Development Finance Authority (ADFA)

Revenues Pledged	Purpose of Debt	Term of Commitment	Remaining Principal and Interest	FY21 Pledged Revenue	FY21 Principal and Interest Paid
License Fees	Prison Construction	2039	$ 28,997,895	$ 4,305,969	$ 1,617,696

G. Loan Payable to Budget Stabilization Trust Fund

Ark. Code Ann. § 19-5-501 requires the Budget Stabilization Trust Fund to make loans as necessary to the Division of Correction for farm production purposes. The Code further stipulates that the loan will be reduced by the value of products produced or processed on the farm that were consumed by inmates in amounts determined and certified by the Legislative Auditor to the Chief Financial Officer of the State.

The loan amount approved by the Chief Fiscal Officer of the State for FY2021 was $5.6 million. The Legislative Auditor's Report on Certification of Consumption of Farm Produce for FY2021 certified that the value of products produced or processed by the Agency in FY2021 was $4,460,433, leaving a balance due of $1,139,567 that was subsequently paid back to the Budget Stabilization Trust Fund by the Agency.