DEPARTMENT OF CORRECTIONS

Annual Financial Report

June 30, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF CORRECTIONS
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Arkansas

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

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

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

Department of Corrections
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022, the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 Corrections are intended to present the financial position; the changes in financial position; and, where applicable, 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, 2022; the changes in its financial position; or, where applicable, its budgetary comparisons for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2022 the Department adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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 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

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, 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 does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2024, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of the testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

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

Little Rock, Arkansas
February 9, 2024
SAC990322

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, 2022, 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 February 9, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; 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 2022-3 through 2022-7, 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*.

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SCHEDULE OF FINDINGS AND RESPONSES

2022-1 In accordance with Ark. Code Ann. § 25-1-124, the Agency reported to Arkansas Legislative Audit a loss of funds totaling $2,980. According to Agency management, a batch deposit from the Division of Community Correction for inmate banking activity was delivered to the bank on November 29, 2022. The deposit was not recorded by the bank, and according to correspondence, the bank has no record of receiving this deposit. Procedures in place at the time allowed Division employees to obtain the previous day's processed deposit slips from the bank the next business day.

We recommend Agency management establish procedures to verify that all deposits are properly accounted for and confirmed as being received by the bank or other financial institution.

Management response: *Due to the discovery of the error, we switched to remote electric deposit for both Division of Community Correction bank accounts. Money orders are now scanned and uploaded to the bank, with same day credit to our accounts.*

2022-2 Act 203 of the Fiscal Session of 2022 (codified at Ark. Code Ann. § 12-28-108) requires the Department of Corrections to conduct an annual audit of the number and types of firearms and ammunition owned by and in the possession of the correctional facilities, with the audit submitted to the Secretary for review. After reviewing the audit submitted to the Secretary, we noted inconsistencies among the divisions in the systems they used to track and maintain records of firearms and ammunition, as well as a lack of documentation of the procedures performed in completing the audit. Because of these inconsistencies and lack of documentation of the procedures performed, we could not determine if the Agency complied with the requirements of the law. These issues seemed to be caused by limited communication and coordination by management to all divisions regarding the expectations of the audit.

To the extent practical, we recommend management establish Agency-wide policies and procedures documenting how compliance with the law will be achieved.

Management response: *Arkansas Division of Community Correction (ACC) utilizes QuickBooks to maintain inventory. Due to operational roadblocks with the Division of Correction, such as multiple shifts changes each day, we have had difficulty working out effective methods of utilizing QuickBooks and its functionalities. The Department of Corrections will continue its review of policies and commit to further streamline procedures that are accurate and effective for the Department.*

2022-3 The Agency's Division of Community Correction inmate banking unit again has improper segregation of duties over cash receipting due to limited staffing or poorly designed internal controls. P4-19-4-501 of the State Financial Management Guide provides agencies a framework to assist in designing an adequate internal control structure around cash receipts, including proper segregation of duties so that no one person is collecting, recording, depositing, and reconciling cash receipts. We tested 40 daily deposits and noted four exceptions: three segregation of duties issues (i.e., the same individual received and recorded the day's activity), and one exception in which procedures could not be verified as the original supporting documentation could not be located. Due to a lack of compliance with the State's Financial Management Guide and failure to ensure that internal controls over cash receipts are operating effectively, improper accounting and other errors could occur. A similar finding was reported in the FY2020 audit (Finding 2020-3), and the Agency did not take corrective action to address the finding.

We recommend Agency management review P4-19-4-501 of the State Financial Management Guide, establish procedures to comply with the policy, and ensure internal controls over cash receipts are operating effectively.

Management response: *The Finance Division provided additional training and guidance on the significance of segregation of duties. Additional staff will be made available in the absence of full-time ACC banking staff to ensure proper internal controls over cash receipts and deposits.*

2022-4 The FY2021 audit included Finding 2021-2 regarding the Division of Correction's unit inmate councils not receiving and/or maintaining vendor invoices supporting purchases made during that fiscal year. Part of the Agency's response to finding 2021-2 included audits of the inmate councils by internal audit, upon request of the Director, Warden, or Deputy Warden and upon a change in the Warden position. Additionally, internal audit was to perform random audits of inmate councils statewide.

The Agency did not implement corrective action. Specifically, we requested reports or other documentation of any audits completed from July 2022 through June 2023, which the Agency could not provide. When corrective action plans to address reportable issues are not followed, issues can continue and affect multiple periods.

We recommend Agency management develop procedures to ensure that corrective action established to address reportable issues is implemented and operational.

Management response: *The initial plan was developed when Internal Audit worked for the Department; however, transformation moved Internal Audit under the Inspector General's Audit Section. The Department recognizes that based upon documentation presented to the Inspector General's Office, as part of implementing Executive Order 21-20, the previous work conducted by the auditors did not meet internal audit standards. The Inspector General's Office has been working with staff to create an audit program for auditing the Inmate Councils so that audits are consistent and properly documented to comply with audit standards.*

2022-5 The Division of Correction overestimated proceeds due from crop sales by approximately $530,000, resulting in the overstatement of assets and deferred inflows of resources related to revenues. Accurate financial reporting under the modified accrual basis of accounting and Ark. Code Ann. § 19-4-505 sometimes requires estimates of amounts when final information for completed transactions is unavailable. At year-end, the Agency was owed a final payment on rice sold from the 2021 calendar year crop cycle, and as the vendor had not determined this amount, the Agency estimated what was to be received using proceeds from prior transactions and current market information. The data used by the Agency in calculating the estimate was inaccurate and did not reflect actual events that occurred, which caused the misstatement.

We recommend Agency management obtain the best available data when making estimates and incorporate a secondary review of all calculations.

Management response: *This finding is strictly due to poor communication between the Farm and Finance Divisions. Going forward, the Finance Division will receive and use calculations from the Farm Division. Additional information regarding crop contracts, pricing and production will be provided by the farm administrator and budget manager to ensure proper accrual of amounts due for farm products.*

2022-6 Effective internal control over cash receipts should allow management to monitor areas that receive cash by maintaining logs or other records that document the location of receipt books as well as the expected prenumbered range of receipts issued and outstanding. The Agency has not established a uniform process for obtaining receipt books or issuing books to individual correctional units, centers, or programs of the Department. This physical receipt documentation is obtained independently by these areas without coordination through accounting shared services. As a result, we were unable to determine if our testing population of receipts was complete and accurate, and the Agency was unable to provide assurance that all receipts have been accounted for appropriately.

We recommend Agency management establish a Department-wide policy for obtaining receipt books that incorporates logs or other records that document the number of books and range of receipts included in the books, to whom books are issued, and any other information considered relevant.

Management response: *We have purchased preprinted, sequentially numbered receipt books for distribution to all DOC departments that receive money. We have a master log of all receipt books with notation of who has the book and date received. Accounting Control personnel follow up to ensure receipts are reported consecutively and promptly.*

2022-7 Adequate internal controls over the valuation of inventory should include procedures to verify that items purchased are recorded in the inventory management system at their correct cost. Because these controls were not in operation at the Division of Correction's central warehouse, our testing identified 23 exceptions at this location between the value added to the Agency's inventory management system and the purchase price. Any errors in additions to inventory have a direct effect on the inventory valuation recorded in AASIS.

We recommend Agency management implement internal controls at the Division of Correction's central warehouse to include reconciliations of purchases in AASIS to additions in the Agency's inventory management system.

Management response: *Additional training, from the Finance Division, has been provided to warehouse staff to ensure pricing from the AASIS purchase order is used for entry into QuickBooks for inventory valuation. As a quality assurance measure, the Finance Division is providing on-going training to appropriate warehouse staff to ensure accurate entry into QuickBooks.*

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
February 9, 2024

DEPARTMENT OF CORRECTIONS
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2022

Exhibit A

		General Fund
ASSETS		
Cash and cash equivalents	$	86,088,295
Funds held in trust by Arkansas Development Finance Authority		19,168,717
Certificates of deposit		5,809,664
Memberships in cooperative organizations		2,053,129
Due from other funds		1,330,891
Due from other state agencies		2,111,288
Due from other governments		226,715
Receivables, net		
Accounts		2,906,318
Leases		90,254
Prepaid items		1,333,337
Inventories		20,089,165
TOTAL ASSETS	$	141,207,773
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accrued payroll	$	17,396,874
Due to other funds		2,561
Due to other state agencies		12,880,915
Due to other governments		3,907,923
Accounts payable		14,162,000
Unearned revenues		24,655
Total Liabilities		48,374,928
Deferred inflows of resources:		
Related to revenues		959,760
Fund balance:		
Nonspendable for:		
Prepaid items		1,333,337
Inventories		20,089,165
Restricted for:		
Capital projects		2,179,061
Debt service		19,085,785
Program requirements		101,324
Other		172
Committed for:		
Program requirements		23,876,223
Assigned for:		
Capital projects		9,629,226
Other		16,452,109
Unassigned		(873,317)
Total Fund Balance		91,873,085
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$	141,207,773

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

DEPARTMENT OF CORRECITONS

Exhibit B

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

FOR THE YEAR ENDED JUNE 30, 2022

	General Fund
REVENUES	
Inmate commissary sales	$ 16,965,775
Sale of Agency-produced goods	14,900,239
Probation, parole, and restitution fees	13,595,814
Telephone commissions	5,178,680
Licenses and permits	4,013,623
Work release fees	3,308,669
Other sales, refunds, and reimbursements	4,541,524
TOTAL REVENUES	62,504,324
Less: State Treasury service charge	471,200
NET REVENUES	62,033,124
EXPENDITURES	
Salary and benefits	318,433,351
Communication and transportation of commodities	5,924,047
Printing and advertising	151,161
Repairing and servicing	17,099,468
Utilities and rent	22,063,521
Travel and subsistence	531,390
Professional services	92,589,470
Insurance and bonds	2,155,989
Other expenses and services	5,552,568
Commodities, materials, and supplies	67,058,703
Assistance, grants, and aid	626,896
Refunds, taxes, and claims	24,240,673
Debt service:	
Principal	17,100,733
Interest	2,890,139
Capital outlay	21,900,273
TOTAL EXPENDITURES	598,318,382
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(536,285,258)

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

OTHER FINANCING SOURCES (USES)		
Interagency transfers in:		
General revenue distribution	$	493,930,829
General improvement funding		15,196,585
Proceeds of financing agreements with Arkansas Development Finance Authority		9,553,592
State education funding to Arkansas Correctional School District		8,707,796
Consumption certification income		4,460,433
Federal grants and reimbursements		14,966,577
Interagency transfers out:		
Excess general revenue funding subsequently transferred to General Revenue Allotment Reserve Fund (GAD)		(11,334,040)
Other, net		(261,868)
Right-to-use leased assets		4,893,770
Prior-year refund to expenditures		48,379
Prior-year warrants outlawed and cancelled		29,059
TOTAL OTHER FINANCING SOURCES (USES)		540,191,112
NET CHANGE IN FUND BALANCE		3,905,854
FUND BALANCE - JULY 1		87,967,231
FUND BALANCE - JUNE 30	$	91,873,085

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, 2022

	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Inmate commissary sales	$ 13,020,000	$ 13,020,000	$ 16,965,775	$ 3,945,775
Sale of Agency-produced goods	14,400,000	14,400,000	14,900,239	500,239
Probation, parole, and restitution fees	15,000,000	15,000,000	13,595,814	(1,404,186)
Telephone commissions	1,400,000	1,400,000	5,178,680	3,778,680
Licenses and permits			4,013,623	4,013,623
Work release fees	3,500,000	3,500,000	3,308,669	(191,331)
Other sales, refunds, and reimbursements	5,501,406	5,501,406	4,541,524	(959,882)
TOTAL REVENUES	52,821,406	52,821,406	62,504,324	9,682,918
Less: State Treasury service charge			471,200	(471,200)
NET REVENUES	52,821,406	52,821,406	62,033,124	9,211,718
EXPENDITURES				
Regular salaries	250,644,989	215,648,711	210,541,934	5,106,777
Extra help	220,000	140,000	77,113	62,887
Operating expenses	116,941,571	165,915,939	143,575,469	22,340,470
Personal services matching	94,679,713	94,588,707	89,949,086	4,639,621
Grants/aid	187,000	182,621	21,835	160,786
Construction	17,878,200	41,664,150		41,664,150
Overtime	2,868,000	13,091,997	10,989,127	2,102,870
Conference fees and travel	470,899	479,910	99,881	380,029
Professional fees and services	85,316,320	86,303,652	79,977,536	6,326,116
Capital outlay	6,828,002	12,028,212	13,614,928	(1,586,716)
Refunds/reimbursements	20,453,607	24,486,607	22,815,695	1,670,912
Claims		721,118	721,118	
Contingency	5,000,000	5,000,000		5,000,000
Debt service	14,105,000	14,105,000	18,175,760	(4,070,760)
Marketing and redistribution proceeds		785,447		785,447
Promotional items		15,000	1,027	13,973
Special maintenance	2,245,000	3,134,750		3,134,750
Building purchase	2,000,000	2,000,000		2,000,000
Capital improvement projects	4,625,000	4,625,000		4,625,000
Medical monetary sanctions	1,700,000			
Paws in Prison program	150,000			
War Memorial parking	10,000			
Community Correction programs	6,200,000			
Jail contracts	1,533,000			
Pandemic related expenses	5,000,000			
Purchase cattle/meat	650,000			
Reentry	3,285,000			
Out-of-state beds	2,213,568			
Regional jail	4,352,470	4,352,470		4,352,470
Transitional housing	1,800,000			
Holiday compensation	5,500,000			
Energy savings and efficiencies	1,431,465			
Arkansas Correctional School District	9,013,299	9,013,299	7,757,873	1,255,426
TOTAL EXPENDITURES	667,302,103	698,282,590	598,318,382	99,964,208

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, 2022

	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (614,480,697)	$ (645,461,184)	$ (536,285,258)	$ 109,175,926
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	482,777,729	482,777,729	493,930,829	11,153,100
General improvement funding			15,196,585	15,196,585
Proceeds of financing agreements with Arkansas Development Finance Authority			9,553,592	9,553,592
State education funding to Arkansas Correctional School District	8,719,425	8,719,425	8,707,796	(11,629)
Consumption certification income	5,600,000	5,600,000	4,460,433	(1,139,567)
Federal grants and reimbursements			14,966,577	14,966,577
Interagency transfers out:				
Excess general revenue funding subsequently transferred to General Revenue Allotment Reserve Fund (GAD)			(11,334,040)	(11,334,040)
Other, net			(261,868)	(261,868)
Right-to-use leased assets			4,893,770	4,893,770
Prior-year refund to expenditures			48,379	48,379
Prior-year warrants outlawed and cancelled			29,059	29,059
TOTAL OTHER FINANCING SOURCES (USES)	497,097,154	497,097,154	540,191,112	43,093,958
NET CHANGE IN FUND BALANCE	(117,383,543)	(148,364,030)	3,905,854	152,269,884
FUND BALANCE - JULY 1	87,967,231	87,967,231	87,967,231	
FUND BALANCE - JUNE 30	$ (29,416,312)	$ (60,396,799)	$ 91,873,085	$ 152,269,884

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

DEPARTMENT OF CORRECTIONS

Exhibit D

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND

JUNE 30, 2022

	Custodial Fund
ASSETS	
Cash and cash equivalents	$ 15,291,583
Due from other funds	2,561
Due from other state agencies	44,391
TOTAL ASSETS	15,338,535
LIABILITIES	
Due to other funds	1,330,891
Accounts payable	99,761
TOTAL LIABILITIES	1,430,652
NET POSITION RESTRICTED FOR INDIVIDUALS AND ORGANIZATIONS	$ 13,907,883

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

DEPARTMENT OF CORRECTIONS

Exhibit E

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUND

FOR THE YEAR ENDED JUNE 30, 2022

	Custodial Fund
ADDITIONS	
Inmate deposits	$ 42,296,762
Donations/Deposits to inmate organizations	3,573,614
Refunds and voided checks	7,406
TOTAL ADDITIONS	45,877,782
DEDUCTIONS	
Commissary purchases	20,875,703
Inmate withdrawals	9,431,308
Disbursements by inmate organizations	6,775,599
Telephone fees	6,389,427
Work release and PIE fees	3,570,139
Gate checks and inmate account close-out	2,772,176
Medical co-pay	155,606
Filing fees, postage, and administrative costs	99,707
Restitution	57,709
TOTAL DEDUCTIONS	50,127,374
NET INCREASE (DECREASE) IN NET POSITION	(4,249,592)
NET POSITION - BEGINNING OF YEAR	18,157,475
NET POSITION - END OF YEAR	$ 13,907,883

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 District, 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. Act 683 of 2021 added the administrative functions of the Sex Offender Assessment Committee to the Department. 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 District – Subject to the supervision, control, and direction of the Board of Corrections; created to provide elementary, secondary, and career and technical education to qualified persons incarcerated in facilities of the Division of Correction and the Division of Community Correction or to persons supervised by the Division of Community Correction, including those on probation and parole or any type of post-prison release or transfer irrespective of age.

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.

Sex Offender Assessment Committee – Promulgates the guidelines and procedures for the disclosure of sex offender information necessary for protecting and informing the public.

NOTE 1: Summary of Significant Accounting Policies (Continued)

A. Reporting Entity/History (Continued)

The Board of Corrections is affiliated with the Department as it 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 District. 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.

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.

The Sex Offender Assessment Committee consists of nine members. Six members are appointed by the Governor and confirmed by the Senate to a four-year term and include one member who is a criminal defense attorney, one member who is a prosecuting attorney, one member who is a licensed mental health professional and has demonstrated expertise in the treatment of sex offenders, one member who is a victims' rights advocate, one member who is a law enforcement officer, and one member with expertise in juvenile justice or treatment. The three remaining members serve by virtue of their position and include the Director of the Division of Correction or their designee, the Director of the Division of Community Correction or their designee, and the Director of the Arkansas Crime Information Center or their designee. All members are entitled to a stipend of $110 per day for attendance at official Board meetings.

In accordance with Ark. Code Ann. § 25-16-902, all members of the boards, commissions, committees, 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Fund Accounting (Continued)

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, 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. 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.

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

State Board of Finance Policies

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

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits (Continued)

State Board of Finance Policies (Continued)

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

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling $20,539,101, $79,578,755, and $5,809,664, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2022, none of the Agency's bank balance of $28,393,379 was exposed to custodial credit risk.

F. 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.

G. 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 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." The purpose of the inventory and the valuation method used is 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Inventories (Continued)

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.

Inventory Type	Value
Farm program	$ 9,217,022
Industry program	1,791,804
Warehouse and kitchens	6,770,013
Inmate commissaries	1,452,388
Other	857,938
Total	$ 20,089,165

H. 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.”

I. 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.

J. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

J. Fund Equity (Continued)

Fund Balance (Continued)

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.

K. 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: New Accounting Pronouncement

The Agency implemented GASB Statement No. 87, *Leases*, in the fiscal year ended June 30, 2022. 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 building space. 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, 2022, total lease related inflows recognized by the general fund were $42,190. The Agency had no significant variable payments, residual value guarantees, or lease termination penalties related to its lease agreements as of June 30, 2022.

Lease Obligations

The Agency leases nonfinancial assets including land, buildings, and equipment. 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 Other General Information.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2022
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2022	2021^	2020*	2019	2018
General Fund					
Total Assets	$141,207,773	$120,457,136	$112,545,674	$ 69,217,033	$ 72,646,659
Total Liabilities	48,374,928	32,283,656	49,170,575	22,742,855	12,243,884
Total Deferred Inflows of Resources	959,760	206,249	1,551,109	87,264	215,074
Total Fund Equity	91,873,085	87,967,231	61,823,990	46,386,914	60,187,701
Net Revenues	62,033,124	54,468,089	49,133,016	32,961,557	35,268,002
Total Expenditures	598,318,382	531,907,795	553,233,850	438,323,811	415,777,887
Total Other Financing Sources (Uses)	540,191,112	503,582,947	519,537,910	391,561,467	386,867,311
Aggregate Remaining Fund Information					
Total Assets	15,338,535	18,157,475	9,418,046	8,577,851	7,734,183
Total Liabilities	1,430,652		9,418,046	8,577,851	7,734,183
Total Net Position	13,907,883	18,157,475			
Total Additions	45,877,782	48,205,245			
Total Deductions	50,127,374	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.

DEPARTMENT OF CORRECTIONS
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2022
(UNAUDITED)

Schedule 2

Board/Commission/Division	Assets & Deferred Outflows	Liabilities & Deferred Inflows	Net Revenues	Expenditures	Other Financing Sources/(Uses)
Department of Corrections	$ 687,932	$ 5,825,526		$ 117,564,759	$ 116,960,569
Division of Correction	109,468,617	36,290,554	$ 45,933,185	360,125,974	316,302,875
Division of Community Correction	22,526,052	7,070,575	15,196,602	109,868,270	95,863,723
Arkansas Parole Board	12,883	127,615		2,127,879	2,095,754
Arkansas Sentencing Commission	4,743	20,418		268,819	261,063
Arkansas Correctional School District	8,507,546		903,337	8,362,681	8,707,128
Totals	$ 141,207,773	$ 49,334,688	$ 62,033,124	$ 598,318,382	$ 540,191,112

A. Capital Assets

Capital assets purchased (or leased) and in the custody of this Agency were recorded as expenditures at the time of purchase (lease inception). Assets with costs exceeding $5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Only leases in excess of $25,000 with non-state entities were recorded in the statewide accounting system. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. 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, 2022, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land and improvements	$ 26,749,338	$ 201,180		$ 26,950,518
Buildings and improvements	400,448,049	23,404,520	$ 54,336	423,798,233
Equipment	63,325,257	7,284,362	4,211,204	66,398,415
Intangible assets	138,972		30,715	108,257
Infrastructure	20,533,687	536,703		21,070,390
Assets under construction	21,516,874	10,393,719	22,430,172	9,480,421
Right-to-Use assets:				
RtU Land		31,830		31,830
RtU Buildings		3,486,250		3,486,250
RtU Equipment		1,375,690		1,375,690
Total Governmental activities	$ 532,712,177	$ 46,714,254	$ 26,726,427	$ 552,700,004

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.

B. Pension Plan (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2022, 2021, and 2020, were $32,170,111, $32,130,827, and $33,845,720, respectively, equal to the required contributions for each year.

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 6.75% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14.75% 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, 2022, 2021, and 2020, were $32,240, $35,425, and $34,164, 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 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 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.

C. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Arkansas State Employee Health Insurance Plan (Plan) (Continued)

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed $550 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

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.

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

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2022 and 2021, amounted to $21,527,446 and $20,458,321, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to $1,069,125.

E. 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 GASB Statement No. 87. The following is a schedule of future minimum lease payments under leases together with the present value of the minimum lease payments as of June 30, 2022:

Years Ending June 30,	Principal	Interest	Total
2023	$ 1,968,293	$ 31,558	$ 1,999,851
2024	603,990	9,556	613,546
2025	224,711	3,261	227,972
2026	79,554	643	80,197
2027	10,446	54	10,500
Totals	$ 2,886,994	$ 45,072	$ 2,932,066

F. Financing Agreements with Arkansas Development Finance Authority (ADFA)

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 financing agreement with ADFA dated December 1, 2005, for the purchase of these prison facilities. DBA subsequently entered a long-term occupancy agreement, also dated December 1, 2005, with the Division of Correction for these same facilities. The long-term obligation for this transaction is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

F. Financing Agreements with Arkansas Development Finance Authority (ADFA) (Continued)

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

   The Department of Corrections has pledged revenue from their portion of the sale of annual license plate validation decals as described in Ark. Code Ann. § 22-3-1225 to cover the principal and interest requirements on the bonds issued by ADFA associated with this financing agreement. 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, 2022:

Revenues Pledged	Purpose of Debt	Term of Commitment	Remaining Principal and Interest	FY22 Pledged Revenue	FY22 Principal and Interest Paid
License Fees	Prison Construction	2039	$ 27,378,715	$ 4,165,600	$ 1,619,179

3. 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.

   The Division of Correction and ADFA entered into an assignment and finance 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 in exchange the Division of Correction receives the net bond proceeds to finance the project. The agreement 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 transaction 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 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.

F. Financing Agreements with Arkansas Development Finance Authority (ADFA) (Continued)

The Division of Community Correction and ADFA entered into an assignment and finance 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 in exchange the Division of Community Correction receives the net bond proceeds to finance the project. The agreement 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 transaction 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 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 financing agreement with ADFA dated August 23, 2018, for the purchase of these facilities. DBA subsequently entered a long-term occupancy agreement, also dated August 23, 2018, with the Division of Community Correction for these same facilities. The long-term obligation for this transaction is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

6. 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.

   The Division of Correction and ADFA entered into an assignment and finance 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 in exchange the Division of Correction receives the net bond proceeds to finance the project. The agreement 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, 2022, $7,272,678 in bond proceeds remained available for project use. The long-term obligation for this transaction 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 included in Other General Information A. as buildings and building improvements. Payments on these obligations are made from the Prison Construction Trust Fund, general improvement funding appropriated by the Legislature and other available funds of the Department of Corrections.

The following is a schedule of future payments owed on the obligations related to these financing agreements as of June 30, 2022:

F. Financing Agreements with Arkansas Development Finance Authority (ADFA) (Continued)

Years Ending June 30,	Principal	Interest	Total
2023	$ 3,315,854	$ 2,706,129	$ 6,021,983
2024	3,487,990	2,303,112	5,791,102
2025	3,673,930	2,182,421	5,856,351
2026	3,864,230	2,055,511	5,919,741
2027	4,060,719	1,922,261	5,982,980
2028-2032	18,356,657	6,244,569	24,601,226
2033-2037	27,303,829	4,404,251	31,708,080
2038-2042	8,747,383	809,329	9,556,712
Totals	$ 72,810,592	$ 22,627,583	$ 95,438,175

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 provided by the Chief Fiscal Officer of the State for FY2022 was $5,348,000. Based on the Legislative Auditor's Report on Certification of Consumption of Farm Produce for FY2022 and in accordance with the provisions of the law, The Division of Correction's loan from the Budget Stabilization Trust Fund has been forgiven.