DEPARTMENT OF EDUCATION

Annual Financial Report

June 30, 2023

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF EDUCATION
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LEGISLATIVE JOINT AUDITING COMMITTEE
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Independent Auditor's Report

Department of Education
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 Education, a department of Arkansas state government, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department of Education's departmental financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Department of Education as of June 30, 2023, the respective changes in financial position, 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 Education 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 Education. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2023, the changes in its financial position, or 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 2023 the department adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription Based Information Technology Arrangements*, or SBITAs. 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the report. The other information comprises the Schedule of Selected Information, Financial Information by Business Area, and Other General Information but does not include the departmental financial statements and our auditor's reports thereon. Our opinions on the departmental financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standa*rds, we have also issued our report dated August 6, 2024, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of the testing, and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
August 6, 2024
SAC990423

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 Education
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 Education (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department of Education's departmental financial statements, and have issued our report thereon dated August 6, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described below in the Schedule of Findings and Responses as items 2023-1, 2023-2, and 2023-3.

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SCHEDULE OF FINDINGS AND RESPONSES

2023-1 Ark. Code Ann. §§ 25-16-702 – 25-16-704 requires the Attorney General to provide legal services for all state officials, departments, institutions, and agencies. Arkansas Code also states that no special counsel shall be employed or additional expense paid for those services. If the Attorney General is unable to provide the legal services needed, the Governor may authorize employment of special counsel.

Northwest Technical Institute paid $4,900 for the services of an attorney in fiscal year 2023 without obtaining authorization from the Governor.

We recommend the Agency comply with Arkansas Code regarding the employment of outside counsel.

Management Response: *Management agrees with the audit finding, as stated. The employee responsible for the contracting with outside counsel has since retired and the agency has taken proper steps to ensure that any legal counsel needed in the future will have all prior authorizations before moving forward.*

2023-2 The Agency is required to record amounts due for student loans in accordance with Ark. Code Ann. §§ 19-2-304, 6-81-1103.

The Arkansas Division of Higher Education (ADHE) oversees two state-funded student loan programs. Students who receive the loans may be eligible to have the loans forgiven if they meet certain criteria. Students not meeting the criteria are placed in repayment status. The Agency maintains student loan subsidiary ledgers to track changes to total loan balances throughout the year. The subsidiary ledgers are then used to adjust loans receivables in AASIS during the fiscal year-end closing process. Review of 44 individual student loan files revealed the following:

- Three instances, totaling $48,975, of dental loan receivables that were forgiven without appropriate or sufficient evidence.
- Five instances, totaling $97,791, of an outstanding student loan balance that was appropriately granted loan forgiveness in state fiscal year 2023, but the subsidiary ledger's loan balance was not discharged as of June 30, 2023.
- Two instances, totaling $39,363, in which loan forgiveness was appropriately granted in fiscal year 2024, but the subsidiary ledger was prematurely updated as of June 30, 2023.
- One instance in which a loan account was listed on the subsidiary ledger for $24,397, but no supporting documentation, such as a promissory note, was available.
- Two instances identified in a prior-year audit in which a loan account's subsidiary ledger had not been corrected as of June 30, 2023, in the amounts of $(33,791) and $350.

Similar issues were noted in the prior year.

We recommend the Agency continue to review the subsidiary ledgers to ensure receivables are accurately reported and strengthen procedures to ensure student loan files are maintained, regularly monitored, and updated. In addition, we recommend the Agency pursue recoupment of funds.

Management Response: *Management agrees with the audit finding, as stated. Corrective actions, including performance improvement plans, have been put into place alongside extensive training on how to review documentation and keep up to date records moving forward to ensure that all records are kept easily accessible and in alignment with finance staff accounts. Subsidiary ledgers have been updated to properly reconcile with AASIS records.*

Accounts with balances have been turned over to the agency's collection partner to begin recoupment of funds to the state for those amounts which were improperly forgiven.

2023-3 A review of ADHE scholarship disbursements revealed exceptions in four scholarship programs:

- In accordance with Ark. Code Ann. § 6-81-605, the **Teacher Opportunity Program (TOP)** may provide reimbursements to employed teachers up to $3,000 but not more than the cost of their student fees, books, and instructional supplies. Additionally, as documented on the ADHE website, payments made with scholarships, grants, or aid given through a third party are not considered for reimbursement. Costs such as late fees are not reimbursable.

  We reviewed 41 TOP expenditures to determine if adequate documentation was maintained and payments were correctly calculated based on supporting documentation. The review revealed 23 incorrectly calculated disbursements, resulting in a loss to the State of $8,192 due to lack of management oversight as follows:

  - Twenty-two transactions resulted in an overpayment of $8,117 due to federal grants that reduced the scholarship recipient's total out-of-pocket expenses but were not taken into consideration during the calculation of the disbursement.
  - One transaction resulted in an overpayment of $75 due to reimbursement of a late fee incurred by the scholarship recipient.

- Ark. Code Ann. § 6-81-1606 states the **State Teacher Education Program (STEP)** shall be used to provide a federal student loan repayment for licensed teachers who graduated from a teacher education program after April 2004 and teachers in (1) a public school located in a critical geographical shortage area of the State or (2) a critical subject area. The amount of the loan repayment is $3,000 and an additional $1,000 for a minority teacher.

  We reviewed 41 STEP expenditures to determine if adequate documentation was maintained and payments were correctly calculated based on supporting documentation. The review revealed two disbursements to recipients who were not teaching in a critical geographic shortage area or a critical subject area and did not meet the grandfather clause criteria, resulting in a loss to the State of $6,000 due to lack of management oversight.

- Ark. Code Ann. §§ 6-4-104, 6-81-1101 authorize the Arkansas Higher Education Coordinating Board to administer a program (**Arkansas Health Education Grant Program**) making grants for the benefit of Arkansas residents to assist in paying tuition for attending certain accredited schools of dentistry, veterinary medicine, optometry, osteopathic medicine, podiatric medicine, or chiropractic medicine located outside the State of Arkansas and to adjust the number of freshman positions to be funded for each applicable program.

  A contract selected with an institution for the 2022-2023 school year awarded 6 chiropractic contract slots at $5,000 per student for the year. Testing revealed that a total of 8 students were awarded the scholarship during the 2022 fall trimester (September – December 2022), which exceeded the slots per the terms of the institution's contract and resulted in a loss to the State of $3,332.

- In accordance with rules governing the **Governor's Higher Education Transition Scholarship Program**, ADHE may award a scholarship to students admitted into a transition program, not to exceed $2,500 per semester, to be applied to tuition, mandatory fees, programmatic fees, room and board, supplies, or extended support services.

  We reviewed all nine of the Transition Scholarship disbursements to universities, totaling $190,000, and noted two exceptions:

  - Although a payment of $20,000 was properly disbursed to the institution and supported by the student roster documentation, the signed warrant request form indicating approval for Finance to process payment was not updated to display the correct amount of the request.

- A duplicate scholarship payment of $2,500 was disbursed to an institution on March 29, 2023. The original payment was sent on November 10, 2022. After inquiry by the auditor, a refund from the institution was requested.

Similar issues were noted in the prior year.

We recommend the Agency review each scholarship program's rules and regulations prior to the disbursement of funds, strengthen internal controls, and ensure adequate supporting documentation is on file for all transactions.

Management Response: *Management agrees with the audit finding, as stated. Additional training has been provided to staff responsible for these programs to ensure that all supporting documentation is reviewed accurately and that no additional reimbursements are provided when not warranted.*

For the Health Education grant contract, this review was part of the performance improvement plan noted in the previous finding that necessitates additional scrutiny of all documentation that is involved with these grants.

On the Higher Education Transition Scholarship, this program has been automated within the agency's Student Application Management System (SAMS) to reduce the possibility of these human errors and include additional workflows so that all items will be reviewed in a proper and timely manner.

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
August 6, 2024

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

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	$ 734,594,996
Investments	11,583,894
Receivable, net:	
Federal grants and reimbursements	117,620,448
School districts:	
Student growth/declining enrollment year-end formula adjustments	68,551
Medicaid matching payments	3,467,344
Refunds	67,145
Teachers	30,025
Accrued interest	65,126
Northwest Technical Institute student accounts	274,515
Lease	22,444
Other	12,707
Notes and loans receivable, net:	
Revolving loan certificates of indebtedness	18,738
Title I repayment loan to school district	201,737
Dental program loans	7,404,028
Optometry program loans	653,097
Due from other state agencies	270,805,950
Prepaid items	4,906,727
Inventories	121,507
TOTAL ASSETS	$ 1,151,918,979
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable:	
Vendors	$ 5,574,888
Contracts	88,257
Other	36,398
Accrued payroll	1,123,814
Due to other state agencies	30,546,523
Due to other education agencies	143,285,412
Due to federal government - grant refunds	24,982
Unearned income	1,699,874
Total Liabilities	182,380,148
Deferred inflows of resources:	
Related to revenues	75,347,157

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

Exhibit A

	General Fund
Fund balance:	
Nonspendable for:	
Prepaid items	$ 4,906,727
Noncurrent receivables or loans	8,046,039
Inventories	121,507
Restricted for:	
Program requirements	18,516,829
Debt service	15,774
Lottery	248,990,952
Other	2,218,949
Committed for:	
Program requirements	31,426,826
Capital projects	30,000,000
Other	298,918,149
Assigned for:	
Capital projects	6,380,765
Other	140,899
Unassigned	244,508,258
Total Fund Balance	894,191,674
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 1,151,918,979

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

DEPARTMENT OF EDUCATION

Exhibit B

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

	General Fund
REVENUES	
Federal grants and reimbursements	$ 1,276,347,616
Rental vehicle tax	2,120,907
Non-federal grant awards	15,130,793
Fee income	3,980,620
Rental income	44,207
Investment earnings	894,566
Sales of goods and services	173,143
Miscellaneous	347,688
TOTAL REVENUES	1,299,039,540
Less: State Treasury service charge	68,854
NET REVENUES	1,298,970,686
EXPENDITURES	
Salary and benefits	63,695,107
Communication and transportation of commodities	23,960,253
Printing and advertising	492,928
Repairing and servicing	2,317,533
Utilities and rent	2,934,578
Travel and subsistence	2,294,960
Professional services	6,408,595
Insurance and bonds	381,321
Other expenses and services	42,121,703
Commodities, materials, and supplies	12,554,868
Assistance, grants, and aid	4,431,828,181
Refunds, taxes, and claims	1,255,372
Interest	143,565
Low value asset purchases	1,257,964
Capital outlay	15,553,853
TOTAL EXPENDITURES	4,607,200,781
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,308,230,095)

DEPARTMENT OF EDUCATION

Exhibit B

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

FOR THE YEAR ENDED JUNE 30, 2023

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	$ 2,499,198,120
Education adequacy distribution	533,765,144
Education excellence general revenue	318,976,443
Arkansas Lottery Commission	113,091,393
Medicaid claims administration for pass-through to school districts	36,340,856
Federal grants and reimbursements from other state agencies	20,146,222
E-rate credit	5,543,034
Non-federal grant awards from other state agencies	1,559,098
Restricted Reserve Fund:	
DESE - School Safety Grants	50,000,000
ASB - School for the Blind campus improvements	15,000,000
ASD - School for the Deaf campus improvements	15,000,000
Other	707,891
Workforce 2000 Development Fund	883,206
Interagency transfers out:	
General revenue transfer to other state agencies	(8,137,976)
Real property reappraisal program costs	(10,830,000)
Medicaid matching	(11,675,753)
Surety bond premium	(146,250)
Assistance, grants, and aids to other state entities:	
Federal grants transferred to state entities	(32,579,129)
Better chance grants	(8,110,251)
Vocational center grants	(12,409,624)
Workforce initiative grants	(13,077,891)
Career coach grants	(2,452,408)
Serious offender grants	(1,716,859)
English language learners	(1,399,772)
Education renewal zone grants	(695,396)
Surplus commodity grants	(1,125,065)
Assessment and advanced placement grants	(647,250)
Distance learning grants	(250,000)
Gifted and talented	(729,507)
Other grants	(1,270,283)
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)	(875,193)
Other, net	(210,224)
Issuance of leases	49,113
Issuance of SBITAs	11,659,084
Prior-year warrants outlawed and cancelled	99,017
Prior-year refunds to expenditures	1,321,819
TOTAL OTHER FINANCING SOURCES (USES)	3,515,001,609
NET CHANGE IN FUND BALANCE	206,771,514
FUND BALANCE - JULY 1	687,420,160
FUND BALANCE - JUNE 30	$ 894,191,674

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

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

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Federal grants and reimbursements	$ 1,737,993,110	$ 1,737,993,110	$ 1,276,347,617	$ (461,645,493)
Rental vehicle tax, net	1,200,000	1,200,000	2,052,052	852,052
Non-federal grant awards	29,302,296	29,302,296	15,130,793	(14,171,503)
Fee income	5,943,803	5,943,803	3,980,620	(1,963,183)
Rental income	500,000	500,000	44,207	(455,793)
Sales of goods and services			173,143	173,143
Investment earnings			894,566	894,566
Miscellaneous			347,688	347,688
TOTAL REVENUES	1,774,939,209	1,774,939,209	1,298,970,686	(475,968,523)
EXPENDITURES				
Regular salaries	50,982,134	51,228,187	46,135,304	5,092,883
Extra help	1,682,071	1,499,550	941,631	557,919
Operating expenses	138,731,387	195,140,721	89,993,055	105,147,666
Personal services matching	17,157,602	17,715,079	16,618,172	1,096,907
Grants and aids	5,300,796,846	6,148,751,478	4,350,373,619	1,798,377,859
Lottery scholarships			77,536,043	(77,536,043)
Conference fees and travel	1,670,136	1,916,589	650,403	1,266,186
Professional fees and services	15,141,083	18,211,915	3,105,937	15,105,978
Capital outlay	31,252,000	40,170,388	15,553,853	24,616,535
Purchases for resale	325,000	325,000	164,734	160,266
Promotional items		25,000	16,281	8,719
Marketing and redistribution proceeds		1,539		1,539
Special maintenance	654,114	408,405		408,405
Refunds and reimbursements	15,569,017	15,569,017	1,143,130	14,425,887
Claims		389,900		389,900
Loans	14,377,370	14,377,370	1,072,000	13,305,370
Scholarships	4,435,000	5,874,500	3,896,619	1,977,881
TOTAL EXPENDITURES	5,592,773,760	6,511,604,638	4,607,200,781	1,904,403,857
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,817,834,551)	(4,736,665,429)	(3,308,230,095)	(2,380,372,380)

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

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	$ 2,499,159,661	$ 2,499,159,661	$ 2,499,198,120	$ 38,459
Education adequacy distribution	533,765,144	533,765,144	533,765,144	
Education excellence general revenue	332,906,194	332,906,194	318,976,443	(13,929,751)
Arkansas Lottery Commission	961,933	961,933	113,091,393	112,129,460
Medicaid claims administration for pass-through to school districts	31,250,000	31,250,000	36,340,856	5,090,856
Federal grants and reimbursements from other state agencies	18,178,347	18,178,347	20,146,222	1,967,875
E-rate credit			5,543,034	5,543,034
Non-federal grant awards from other state agencies	949,999	949,999	1,559,098	609,099
Restricted Reserve Fund:				
DESE - School Safety Grants	50,000,000	50,000,000	50,000,000	
ASB - School for the Blind campus improvements			15,000,000	15,000,000
ASD - School for the Deaf campus improvements			15,000,000	15,000,000
Other	83,000	83,000	707,891	624,891
Merit adjustment (Performance Fund)	3,628,022	3,628,022		(3,628,022)
Workforce 2000 Development Fund	883,206	883,206	883,206	
Interagency transfers out:				
Division of Career and Technical Education budget transfer to Department of Commerce	(21,867,599)	(21,867,599)		21,867,599
General revenue transfer to other state agencies			(8,137,976)	(8,137,976)
Real property reappraisal program costs			(10,830,000)	(10,830,000)
Medicaid matching			(11,675,753)	(11,675,753)
Surety bond premium			(146,250)	(146,250)
Assistance, grants, and aids to other state entities			(76,463,435)	(76,463,435)
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)			(875,193)	(875,193)
Other, net	1,025,869.00	1,025,869.00	(210,224)	(1,236,093)
Issuance of leases			49,113	49,113
Issuance of SBITAs			11,659,084	11,659,084
Prior-year warrants outlawed and cancelled			99,017	99,017
Prior-year refunds to expenditures			1,321,819	1,321,819
TOTAL OTHER FINANCING SOURCES (USES)	3,450,923,776	3,450,923,776	3,515,001,609	64,077,833
NET CHANGE IN FUND BALANCE	(366,910,775)	(1,285,741,653)	206,771,514	(2,316,294,547)
FUND BALANCE - JULY 1	687,420,160	687,420,160	687,420,160	
FUND BALANCE - JUNE 30	$ 320,509,385	$ (598,321,493)	$ 894,191,674	$ (2,316,294,547)

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

Exhibit D

DEPARTMENT OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

		Custodial Funds
ASSETS		
Cash and cash equivalents	$	63,422
Investments		1,007
TOTAL ASSETS	$	64,429
NET POSITION		
Amounts held for students and student and school organizations	$	64,429

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

DEPARTMENT OF EDUCATION

Exhibit E

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2023

	Custodial Funds
Additions:	
Student deposits and donations	$ 49,653
Interest income	6
Total Additions	49,659
Deductions:	
Student payments and withdrawals	66,652
Change in net position	(16,993)
Net position - beginning	81,422
Net position - ending	$ 64,429

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 910 of 2019 created the cabinet-level Department of Education. The Secretary of Education is the executive head of the cabinet-level department. The cabinet-level department also consists of state entities transferred by a cabinet-level department transfer. State entities transferred to the Department of Education are described below:

Act 169 of 1931, as amended established the Department of Education as a department of Arkansas state government, with a Commissioner of Education as the administrative head. The Department of Education, now known as the Division of Elementary and Secondary Education, under the general direction and supervision of the State Board of Education, provides general supervision of the public schools of the State; recommends courses of study for public schools and teacher training institutions; issues licenses based upon credentials presented by applicants to teach in the public schools of the State; qualifies and standardizes public schools; prescribes requirements for accrediting and grading public schools; supervises the operation of school district budgets; takes such other action as it may deem necessary to promote the physical welfare of school children, the organization and efficiency of the public schools of the State, and public education and awareness about racial profiling; and assumes control of certain school districts and removes the board of directors, with the State Board assuming all authority of a school district board of directors as may be necessary for the day-to-day governance of a school district.

Act 38 of 1971, as amended, established the Department of Higher Education as a department of Arkansas state government. Now known as the Division of Higher Education, it provides greater coordination of financing the higher education program of the State, certifying new educational programs and new institutions of higher learning, and administering certain financial aid programs. Ark. Code Ann. § 25-43-505 required that the Northwest Technical Institute (NWTI), established in 1975, become a part of the Division of Higher Education. NWTI offers training and education in nine diploma programs, while a secondary career and technology center provides training for high school credit in career and technical fields and an adult education center offers free instruction to adults who need to obtain a high school equivalency diploma or wish to improve basic academic skills.

The Division of Career and Technical Education (CTE) helps students acquire skills needed to begin the path to their occupational goals by delivering high-quality CTE programs and services to increase workplace readiness skills of Arkansas middle and high school students.

Act 97 of 1859, as amended, created the Arkansas School for the Blind to provide for the training and educational advancement of the blind. Subsequent legislation made school attendance compulsory for mentally capable children over age eight whose sight is impaired to the extent that they cannot benefit from instruction in a public school.

Act 36 of 1868, as amended, created the Arkansas School for the Deaf to provide for the education and training of hearing-impaired children in Arkansas. This includes providing classroom instruction at the School's facility in Little Rock, as well as coordinating statewide efforts to identify and serve hearing-impaired students in public schools.

Act 489 of 1979 created the Arkansas State Library. Its mission is to serve as the information resource center for state agencies, legislators, and legislative staff; provide guidance and support for the development of local public libraries and library services; and provide the resources, services, and leadership necessary to meet the educational, informational, and cultural needs of the citizens of Arkansas.

Act 1216 of 1993 created the Martin Luther King, Jr. Commission, which is the offspring of the Martin Luther King Federal Holiday Commission established under Governor Bill Clinton by executive order.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Fund Accounting

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

Governmental Funds

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

Fiduciary Funds

Trust and Custodial Funds –Trust and custodial funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Custodial Funds. These funds account for assets held by the Agency as a custodial agent for students under the supervision of the Agency.

C. Basis of Accounting

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

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. All short-term investments are stated at fair value.

E. Deposits and Investments

State Board of Finance Policies

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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

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

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

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling $9,815,077, $734,263,734, and $10,493,569, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2023, none of the Agency's bank balance of $20,358,506 was exposed to custodial credit risk.

Investments

Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value. The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation assumptions used to measure the fair value of the asset as follows:

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

The Agency had the following recurring fair value measurements as of June 30, 2023:

	Valuation Method	Amount
General Fund		
State Treasury money management trust fund	Level 1	$ 511,387
Bonds	Level 1	235,484
Domestic Securities	Level 1	506,395
Domestic Securities	Level 3	10,059
Mutual funds	Level 1	118,620
Federated treasury obligations money market fund	Level 1	220,774
Total		$ 1,602,719

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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

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

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

As of June 30, 2023, the Agency had the following investment balances and segmented maturities:

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
General Fund					
State Treasury money management trust fund	$ 511,387	$ 511,387			
Bonds	235,484		$ 235,484		
Federated treasury obligations money market fund	220,774	220,774			
Total	$ 967,645	$ 732,161	$ 235,484	$ 0	$ 0

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary shown above indicates that 24% of the Agency's investment maturities are one year or longer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency's exposure to credit risk as of June 30, 2023, was as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

Rating	Fair Value
AAA	$ 220,774
AA	57,764
A	130,608
BBB	47,112
Unrated	511,387
Total	$ 967,645

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. The Agency places no limit on the amount it may invest in any one issuer. As of June 30, 2023, the Agency had the following investments that represent more than 5% of net investments, excluding the State Treasury Money Management Trust Fund and investments that are fully insured or collateralized such as certificates of deposit:

New Jersey Economic Development	6%

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

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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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. 96, *Subscription Based Information Technology Arrangements*, or SBITAs, in the fiscal year ended June 30, 2023. A SBITA is a contract that conveys control of the right-to-use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. Since the financial statements of the Agency are presented using the modified accrual basis of accounting, no liability or SBITA asset is reflected on the balance sheet. Additional details regarding SBITA assets and related obligations are presented in Other General Information.

NOTE 3: Leases

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

Lease Receivables

As the lessor, the Agency leases out various types of assets, such as buildings. The related receivables are presented in the Balance Sheet for the amounts equal to the present value of lease payments expected to be received during the lease term. For the year ended June 30, 2023, total lease related inflows recognized by the general fund were $26,874. The Agency had no significant variable payments, residual value guarantees, or lease termination penalties related to its lease agreements as of June 30, 2023.

Lease Obligations

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

NOTE 4: Related Party Transactions

The Agency has contracted with the Arkansas Public School Resource Center (APSRC), a nonprofit membership organization that offers technical support, resources, and training, to provide professional development training for the Arkansas Leadership Academy per Ark. Code Ann. § 6-15-1007. Dr. Sarah Moore is a member of the Arkansas State Board of Education and a member of the APSRC Policy Board. In fiscal year 2023, the Agency made grant payments to APSRC totaling $4.8 million that consisted of the following:

- Two payments, totaling $1.4 million, for invoices submitted for the Arkansas Leadership Academy.
- Three payments, totaling $1.5 million, for invoices submitted to provide access to the Comprehensive Financial Analysis Model (CFAM) for all public and charter schools.
- Six payments, totaling $1.4 million, for invoices submitted to provide Learning Blade, Career Blade, and Ready for Industry to all public and charter schools.
- Other state and federal grant payments, totaling $522,000, associated with the novice teacher program and special education consultants.

Schedule 1

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

	For the Year Ended June 30,				
	2023	2022	2021	2020	2019
General Fund					
Total Assets	$ 1,151,918,979	$ 960,093,975	$ 857,217,977	$ 623,069,983	$ 355,596,000
Total Liabilities	182,380,148	204,289,910	187,711,444	97,441,252	87,320,850
Total Deferred Inflows of Resources	75,347,157	68,383,905	44,086,184	23,200,772	43,289,895
Total Fund Equity	894,191,674	687,420,160	625,420,349	502,427,959	224,985,255
Net Revenues	1,298,970,686	1,312,608,584	958,381,993	583,153,755	550,886,776
Total Expenditures	4,607,200,781	4,626,961,106	4,170,620,237	3,726,959,450	3,472,935,314
Total Other Financing Sources (Uses)	3,515,001,609	3,376,352,333	3,335,230,634	3,256,521,900	2,860,931,057
Aggregate Remaining Fund Information					
Total Assets	64,429	81,422	101,065	441,089	
Total Liabilities				441,089	
Total Net Position	64,429	81,422	101,065		
Additions	49,659	32,631	52,585	223,127	
Deductions	66,652	52,274	34,397	152,869	

Arkansas Department of Education information was used for the year 2019. Transformation Act 910 of 2019 created the cabinet-level Department of Education presented in 2020, 2021, 2022, and 2023.

DEPARTMENT OF EDUCATION
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2023
(UNAUDITED)

Schedule 2

Board/Commission/Division	Business Area	Assets	Liabilities & Deferred Inflows	Revenues	Expenditures	Other Financing Sources/(Uses)
Martin Luther King, Jr., Commission	0318	$ 40,564	$ 5,367	$ 262,280	$ 603,392	$ 341,935
Division of Elementary and Secondary Education	0500	794,360,973	236,570,389	1,269,646,942	4,405,981,536	3,260,712,606
Arkansas School for the Blind	0510	18,658,942	155,254	541,372	8,542,722	23,140,646
Arkansas School for the Deaf	0513	17,114,911	219,647	313,300	11,369,580	26,502,536
Arkansas State Library	0519	1,320,187	146,367	2,492,416	11,544,431	9,064,179
Northwest Technical Institute	0552	4,892,728	462,623	3,143,306	10,261,528	7,195,020
Division of Career and Technical Education	0590	16,108,833	3,891,942	17,907,854	27,837,592	10,127,510
Division of Higher Education	0700	298,412,125	16,153,908	4,663,216	124,685,836	171,095,520
Department of Education (cabinet-level)	9904	1,009,716	121,808		6,374,164	6,821,657
Totals		$ 1,151,918,979	$ 257,727,305	$ 1,298,970,686	$ 4,607,200,781	$ 3,515,001,609

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 (and SBITAs in excess of $1,000,000) with non-State entities were recorded in the statewide accounting system. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

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

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

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 516,348			$ 516,348
Improvements	1,150,731	$ 6,077		1,156,808
Buildings	38,359,666	3,568,422	$ 316,785	41,611,303
Equipment	11,502,657	1,064,641	503,127	12,064,171
Infrastructure	569,127	208,771		777,898
Library holdings	691,309	513	1,968	689,854
Construction in progress	3,367,825	1,554,901	3,363,325	1,559,401
Software	2,188,474		5,099	2,183,375
Other capital assets	66,206	6,684		72,891
Right-to-Use assets:				
RtU Buildings	215,593	49,113		264,706
RtU SBITAs		12,488,376		12,488,376
Total Governmental activities	$ 58,627,936	$ 18,947,498	$ 4,190,304	$ 73,385,131

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.

B. Pension Plan (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24. of the Arkansas Code Annotated. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-501-682-7855.

Funding Policy – Contributory plan members are required to contribute 5.25% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2023, 2022, and 2021, were $856,461, $760,704, and $698,978, respectively, equal to the required contributions for each year.

Arkansas Teacher Retirement System (ATRS)

Plan Description – The Agency contributes to the Arkansas Teacher Retirement System (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 7.00% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.00% 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, 2023, 2022, and 2021, were $6,229,097, $5,533,882, and $5,181,230, respectively, equal to the required contributions for each year.

Teachers Insurance and Annuity Association/College Retirement Equities Fund

Plan Description – The Agency participates in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution plan. The plan is a 403(b) program as defined by the Internal Revenue Service Code of 1986, as amended, and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company that offers a variable annuity. Arkansas Code Annotated authorizes participation in the plan.

Funding Policy – TIAA/CREF has contributory and non-contributory plans. Contributory members are required to contribute at least 7% of earnings to the plan. The Agency contributes 15% of earnings for members. The Agency's contributions for the years ended June 30, 2023, 2022, and 2021, were $64,198, $81,376, and $96,277, 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 retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by 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 $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, 2023 and 2022, amounted to $4,189,959 and $4,330,645, respectively. The net changes to compensated absences payable during the year ended June 30, 2023 amounted to $(140,686).

E. Leases and Subscription Based Information Technology Arrangements (SBITAs)

The Agency has acquired property by entering into a contract that conveys control of the right to use another entity's nonfinancial asset which is treated as a lease under the GASB Statement No. 87. The Agency has also acquired the right-to-use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction under the GASB Statement No. 96.

E. Leases and Subscription Based Information Technology Arrangements (SBITAs) (Continued)

For more information on the Agency's right-to-use assets, refer to Note A above. Future amounts required to pay principal and interest on lease and SBITA obligations as of June 30, 2023, were as follows:

Lease Obligations Years Ending June 30,	Principal	Interest	Total
2024	$ 33,028	$ 832	$ 33,860
2025	33,566	294	33,860
Totals	$ 66,594	$ 1,126	$ 67,720

SBITA Obligations June 30,	Principal	Interest	Total
2024	$ 746,458	$ 88,542	$ 835,000
2025	789,154	65,846	855,000
2026	838,191	41,809	880,000
2027	878,592	16,408	895,000
Totals	$ 3,252,395	$ 212,605	$ 3,465,000

F. School Worker Defense Program

As provided by Ark. Code Ann. § 6-17-1113, the Department of Education established a self-insured professional liability insurance program for school workers effective August 1, 1998. The program provides up to $150,000 per incident for certain civil liability exposures not otherwise excluded by governmental immunity. Employees, certain volunteers, and board members of education service cooperative, public school districts, Arkansas School for the Blind, Arkansas School for the Deaf, and Arkansas School for Mathematics, Sciences, and the Arts are insured under the program. The funding of this program is provided by a specific appropriation from the Public School Fund. For the year ended June 30, 2023, $390,000 was appropriated for the school worker defense program, no funds were disbursed as legal fees, and no funds were disbursed for a settlement amount.

G. Notes Receivable – Revolving Loan Certificates of Indebtedness

The Department of Education has executed certificates of indebtedness totaling $18,737 with various school districts through its Revolving Loan Program. These loans have been made to provide low-interest financing to the districts for purchase of buses, construction of facilities, or other purposes as allowed by Ark. Code Ann. § 6-20-802. The certificates of indebtedness are amortized over a maximum of 10 years. The State Board of Education adjusts the interest rates as necessary to stay competitive with commercial lenders. As of June 30, 2023, the annual interest rate on certificates of indebtedness was 4.95%.

H. General Obligation Bonds Long-Term Debt

The Constitution of the State does not limit the amount of general obligation bonds that the State may issue; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose. Principal, interest, and paying agent fees are recorded as debt service expenditures when due. When a bond is issued, the face amount of the debt is recorded as another financing source, and the bond premium, discount, and/or issuance cost is recognized. Premiums and discounts are recorded as other financing sources and uses, respectively. Issuance costs are recorded as debt service expenditures.

H. General Obligation Bonds Long-Term Debt (Continued)

In accordance with current accounting principles generally accepted in the United States of America, the liability; deferred premium, discounts, and/or issuance costs; and amortization of deferred premiums, discounts, and/or issuance costs are reported in the State of Arkansas's Annual Comprehensive Financial Report, the State's "government-wide" financial statements, but are not reported in the governmental fund financial statements.

General obligation bonds outstanding as of June 30, 2023, were as follows:

	Final Maturity Date June 1,	Interest Rates %	Balance
Higher Education Bonds:			
2015 Series, G.O. Bonds	2029	4.00 - 4.25	$ 112,675,000

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2023, were as follows:

Year Ending June 30,	Principal	Interest	Total
2024	$ 18,800,000	$ 4,507,000	$ 23,307,000
2025	19,550,000	3,755,000	23,305,000
2026	20,335,000	2,973,000	23,308,000
2027	21,145,000	2,159,600	23,304,600
2028	21,990,000	1,313,800	23,303,800
2029	10,855,000	434,200	11,289,200
Totals	$ 112,675,000	$ 15,142,600	$ 127,817,600

Higher Education General Obligation Bond – Act 1282 of 2005 authorized the State to issue Higher Education General Obligation Bonds. All bonds issued under the authority of this Act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to approximately $250 million. However, the total outstanding principal amount of Higher Education General Obligation Bonds issued under Act 1282 of 2005 and College Savings Bond Act of 1989 shall not have scheduled debt service payment on a combined basis in excess of $24 million in any one fiscal year. The Higher Education General Obligation Bonds were issued to provide funds to finance technology and facility improvements for state institutions of higher education and to refund certain outstanding bonds. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this Act in the 2023 fiscal year.