DEPARTMENT OF EDUCATION

Annual Financial Report

June 30, 2025

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF EDUCATION
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Department of Education
Legislative Joint Auditing Committee

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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, 2025, 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, 2025, and the respective changes in financial position 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 and the changes in financial position 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, 2025, or the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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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 judgment and maintain professional skepticism throughout the audit.

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

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

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

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

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

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis and budgetary comparison information 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 and the budgetary comparison information are not required to be presented for the Department of Education individually. However, the Department of Education's portion of the budgetary comparison information is presented as other information in the Schedule of Budget and Actual Expenditures. Our opinions on the departmental financial statements are not affected by these omissions.

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, Schedule of Budget and Actual Expenditures, and Other General Information but does not include the departmental financial statements and our auditor's reports thereon. Our opinions on the departmental financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2026, 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
June 22, 2026
SAC990425

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, 2025, 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 June 22, 2026.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in *internal* control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2025-1 that we consider to be a significant deficiency.

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 which are described below in the Schedule of Findings and Responses as items 2025-2, 2025-3, and 2025-4.

SCHEDULE OF FINDINGS AND RESPONSES

2025-1 Educational Freedom Accounts (EFA) are state-funded accounts used to cover approved educational expenses, including private school tuition, curriculum, tutoring, etc.

During our review of 746 expenses totaling $305,000 from 52 EFA accounts, we identified 3 exceptions totaling $1,666 comprised of the following:

1. One expense of $216 with insufficient supporting documentation includes an invoice that is not itemized.
2. One expense of $42 was a duplicate payment for a service already reimbursed. The receipt was submitted twice, approved by a different reviewer, and not recognized as previously paid.
3. One EFA account's expenditures exceeded their allocation amount by $1,407 due to a duplicate account created by Student First that was not detected and combined with the approved account when transferred to the new vendor, Class Wallet, mid-year. The Agency has since strengthened controls during the application process to prevent this type of error.

We recommend the Agency continue to strengthen controls regarding record retention and duplicate payment of invoices.

Management Response: *The Agency acknowledges the audit finding and agrees with the recommendation to implement internal controls to ensure EFA students are included in a duplicate enrollment review process.*

The Agency has already taken corrective action and is further formalizing controls to strengthen enrollment verification, payment review, and anomaly detection across the EFA program. As part of this effort, the Agency has implemented a new homeschool database within the e-school system that supports routine cross-checks of EFA homeschool students against public school enrollment rosters. This enhancement is intended to improve early detection of potential duplicate enrollments and reduce the risk of duplicate payments or improper funding.

Corrective Actions and Internal Control Enhancements

1) Duplicate Enrollment Review Process (New Control)

To address the audit recommendation directly, the Agency has established a process to identify potential duplicate enrollment across EFA and public-school records. Key control enhancements include:

- *Homeschool roster integration within the e-school system: EFA homeschool students are now maintained in a structured database environment that can be compared against public school enrollment rosters.*
- *Nightly duplicate enrollment reviews: The system supports nightly reviews and assessments of potential duplicate enrollments between:*
  - *the public school roster, and*
  - *the EFA homeschool roster.*
- *Case review and resolution workflow: Flagged records will be reviewed to determine whether:*
  - *the student is incorrectly coded,*
  - *the student is lawfully participating on a part-time basis (if applicable under program rules), or*
  - *an improper duplicate enrollment exists, requiring follow-up and potential recoupment action.*

This control is designed to move the Agency from periodic/manual detection to a more continuous monitoring approach.

2) Anomalous Activity Report (Expanded Monitoring Control)

In addition to enrollment matching, the Agency is implementing an Anomalous Activity Report to identify broader program risks and data/payment anomalies.

The report is designed to flag potential issues, including, but not limited to:

- *Duplicate payments*
- *Duplicate enrollments*
- *Duplicate households/accounts*
- *Other anomalies involving EFA rosters and expense payments*

This monitoring tool will support program staff in proactively identifying exceptions for review and documenting corrective action before issues compound.

3) Expense Documentation and Reimbursement Control Improvements

The audit identified one expense with insufficient supporting documentation (non-itemized invoice). In response, the Agency is strengthening reimbursement review controls to ensure adequate documentation before approval.

Actions include:

- *Reinforcing documentation standards requiring itemized invoices/receipts for reimbursement requests*
- *Clarifying reviewer expectations and escalation procedures when documentation is incomplete*
- *Standardizing review checklists to improve consistency across staff and vendors*
- *Requiring additional documentation before payment approval when a submission is not sufficiently detailed*

4) Duplicate Payment Control Improvements

The audit identified one duplicate reimbursement payment for a service already reimbursed. To address this risk, the Agency is strengthening controls through both process and system monitoring.

Actions include:

- *Enhanced reviewer checks for previously reimbursed transactions*
- *Use of anomaly reporting to identify potential duplicate payments*
- *Documentation of review and resolution steps for flagged duplicate-payment cases*
- *Ongoing coordination with the program vendor to improve duplicate detection logic where applicable*

5) Duplicate Account / Allocation Overrun Control Improvements

The audit identified one account that exceeded its allocation due to a duplicate account created by the prior vendor (Student First) and later merged during the transition to ClassWallet. The Agency notes this was an isolated case tied to a mid-year vendor transition and that no other instances of overspending beyond allocation were identified in the audit population.

The Agency has since strengthened application and account setup controls to prevent recurrence, including:

- *Improved account identity verification during application processing*
- *Enhanced duplicate account checks before account activation/funding*
- *Additional validation during account transfer/transition processes*
- *Reconciliation controls to ensure account balances and allocations align to one approved student record*

Anticipated Completion Date: Completed.

2025-2 According to Act 237 of the Regular Session of 2023 (the LEARNS Act), the Division of Elementary and Secondary Education shall administer the Arkansas Children's Educational Freedom Account (EFA) Program. EFAs are state-funded accounts used to cover approved educational expenses, including private school tuition, curriculum, tutoring, etc.

During our review of the Agency controls implemented in state fiscal year 2025, we noted that the Agency identified 19 students enrolled full-time in a public school in the 2024-2025 school year who spent EFA funds totaling $58,751 in fiscal year 2025. Of the 19 students, 16 were enrolled in an online open-enrollment public charter school, and 3 were enrolled in a public school district. The recoupment process has yet to be fully developed.

We recommend the Agency finalize procedures for recoupment when a duplicate payment is identified.

Management Response: *The Division acknowledges the audit finding and agrees that the recoupment process for duplicate enrollment cases must be fully formalized and documented.*

As noted, the EFA program is administered pursuant to the LEARNS Act, and EFA funds are intended only for eligible students who are not enrolled full-time in a public school while participating in the EFA program. When duplicate enrollment is identified, the Agency's corrective action strategy is to first determine the cause of the discrepancy and then apply the appropriate recoupment action.

Corrective Action / Recoupment Strategy

The Agency will finalize and implement written procedures to address duplicate enrollment findings using the following process:

1. Verification and Root Cause Review

- *ADE will review each flagged case to determine whether:*
    - *the EFA student was incorrectly coded in the public school student information/public school database, or*
    - *the EFA homeschool student was legitimately taking courses at a public school on a part-time basis but was incorrectly classified as full-time.*
- *This review will include validation of enrollment status, coding, and attendance classification using available state and local records.*

2. EFA Family Recoupment (when full-time public enrollment is confirmed)

- *If ADE confirms that an EFA student was enrolled full-time in a public school while also receiving EFA funds, the student was not eligible to receive EFA funds for that period.*
- *In those cases, the State will establish a repayment plan with the family to recover EFA funds disbursed during the period of ineligible participation.*
- *The repayment process will include notice to the family, calculation of the amount owed, and documentation of repayment terms and monitoring.*

3. ADM Funding Recoupment from Public Schools (when a part-time homeschool student was misclassified)

- *If ADE determines that a homeschool/EFA student was enrolled only on a part-time basis in a public school, but the school received ADM funding due to an incorrect full-time classification, ADE will recoup the improperly allocated public funds.*
- *ADE will do so by reducing future ADM funding to the public school/district/charter, as applicable, to recover the amount overpaid.*

4. Documentation and Controls

- *ADE will finalize written procedures defining:*
  - *case identification and review steps,*
  - *roles and responsibilities,*
  - *required documentation,*
  - *recoupment decision criteria,*
  - *notice and repayment procedures,*
  - *coordination between EFA and public school finance/data teams, and*
  - *tracking and closure requirements.*
- *ADE will also strengthen cross-check controls and periodic duplicate enrollment reviews to identify and resolve discrepancies earlier.*

Anticipated Completion Date: Completed.

2025-3 The Commission for Arkansas Public School Academic Facilities and Transportation Rule 3.26, governing the Academic Facilities and Partnership Program, defines “project cost” as utilizing specific funding factors established by the Division, which serve as the basis for the estimated state financial participation for partnership projects per square foot. In our testing of 7 of 62 projects, we noted that the Agency used an incorrect project cost factor for 1 recipient because of a formula error in the cost factor computation sheet, resulting in an undercalculation of $659,863. The Agency has subsequently strengthened the controls over computation sheets by restricting cell formulas to administrative access only. Additionally, as a result of our review, the Agency corrected the undercalculation and created an amendment with the appropriate amount of funds for the district.

Lack of effective management review of the cost factor computation sheet could cause the state financial participation calculation to be incorrect.

We recommend the Division continue to monitor and strengthen the review process over the Project Cost component of the calculation.

Management Response: The Arkansas Department of Education concurs with the finding. The 2123 partnership cycle spreadsheet with this entity had a formula error in the cost factor computation, resulting in an undercalculation of $659,863.00. It was discovered that one of the spreadsheets within the Division’s program of requirement had been unlocked, allowing the formula to be accessible to anyone. The Division has implemented a new procedure allowing only administrators access to the program through the requirement of passwords.

An amendment was created to correct the state financial participation in the formula.

Anticipated Completion Date: Completed.

2025-4 Section P1-19-4-2004 of the Department of Finance and Administration (DFA) Office of Accounting Financial Management Guide requires the bonded disbursing officer of an agency to report any losses of state funds to the State Chief Fiscal Officer and to the Arkansas Legislative Audit (ALA). Losses include apparent unauthorized disbursements of state funds or the apparent theft or misappropriation of state funds or property. A report shall be made within 5 business days of the date the employee learns of the loss.

Also, in accordance with the Department of Finance and Administration (DFA) Financial Management Guide section P1-19-4-1503, the executive head of each agency shall be held accountable for all state property under his or her control and shall be responsible for keeping and maintaining a record of all inventory.

The following issues were noted during the audit:

- During testing of 30 deletions, we discovered that the Division of Career and Technical Education was informed on April 11, 2025, that one laptop valued at $2,534 was stolen. The Agency notified law enforcement and the State Chief Fiscal Officer of the incident but did not report the theft to Arkansas Legislative Audit as required.

- During the capital asset observation testing of 75 items, the Arkansas School for the Deaf and Blind was unable to locate a backhoe attachment purchased in 2006 for $8,080. The Agency performed an investigation that could not determine whether the asset was lost, stolen, or sent to Marketing and Redistribution in a prior year. The Agency notified law enforcement, the State Chief Fiscal Officer and Arkansas Legislative Audit, after Agency staff were unable to locate the asset for audit.

This failure to report these losses/thefts timely and update the AASIS inventory listing in a timely manner caused the Agency to be out of compliance with Section P1-19-4-2004 and P1-19-4-1503 of the DFA Financial Management Guide.

We recommend the Agency continue to monitor and safeguard assets to prevent further occurrences of loss/theft and comply with P1-19-4-2004 and review AASIS inventory listing and remove all capital assets that are no longer in use or were disposed in a prior fiscal year to comply with P1-19-4-1503. This will ensure that the Agency's capital asset equipment amounts in AASIS are accurately reported going forward.

Management Response: *The Arkansas Department of Education concurs with the finding and agrees with the recommendation to continue to safeguard assets and review the AASIS inventory listing to remove all assets that are no longer in use or were disposed of in a prior fiscal year. The ADE Financial Policy and Procedures Manual has been updated to include specific verbiage requiring the notification to Arkansas Legislative Audit in writing within five business days of any incident involving a loss.*

The Arkansas School for the Deaf and Blind is strengthening its procedures and internal control for tracking state property perpetually to maintain accurate asset records. As a part of this effort, the Agency will be completing a total physical inventory of all assets listed within the AASIS fixed asset listing twice in the upcoming year.

ASDB is committed to improving the internal review procedures to ensure property records remain current and complete going forward. ASDB is committed to complying with P1-19-4-1503.

Anticipated Completion Date: May 1, 2027

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
June 22, 2026

DEPARTMENT OF EDUCATION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2025

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	$ 988,969,555
Investments	14,239,728
Receivable, net:	
Federal grants and reimbursements	64,851,936
School districts:	
Medicaid matching payments	4,675,821
Refunds	1,314,712
Teachers	22,550
Accrued interest	81,610
Northwest Technical Institute student accounts	216,617
Other	288,022
Notes and loans receivable, net:	
Revolving loan certificates of indebtedness	270,000
Dental program loans	5,592,765
Optometry program loans	407,949
Due from other state agencies	359,656,182
Prepaid items	4,303,600
Inventories	1,929,475
TOTAL ASSETS	$ 1,446,820,522
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable:	
Vendors	$ 2,192,365
Other	121,904
Accrued payroll	1,659,891
Due to other state agencies	19,010,220
Due to other education agencies	98,761,798
Unearned income	2,190,819
Total Liabilities	123,936,997
Deferred inflows of resources:	
Related to revenues	48,226,834

DEPARTMENT OF EDUCATION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2025

	General Fund
Fund balance:	
Nonspendable for:	
Prepaid items	$ 4,303,600
Inventories	1,929,475
Restricted for:	
Program requirements	69,105,583
Debt Service	37,987
Lottery	343,843,103
Other	2,415,995
Committed for:	
Program requirements	53,212,084
Capital projects	34,392,576
Other	347,774,421
Unassigned	417,641,867
Total Fund Balance	1,274,656,691
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 1,446,820,522

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, 2025

	General Fund
REVENUES	
Federal grants and reimbursements	$ 1,142,931,781
Rental vehicle tax	2,399,914
Non-federal grant awards	20,128,286
Fee income	3,795,337
Rental income	32,471
Investment earnings	2,121,277
Sales of goods and services	138,283
Miscellaneous	235,201
TOTAL REVENUES	1,171,782,550
Less: State Treasury service charge	76,799
NET REVENUES	1,171,705,751
EXPENDITURES	
Salary and benefits	76,807,394
Communication and transportation of commodities	20,583,275
Printing and advertising	388,557
Repairing and servicing	3,242,895
Utilities and rent	3,624,978
Travel and subsistence	2,234,414
Professional services	14,127,956
Insurance and bonds	359,281
Other expenses and services	56,744,248
Commodities, materials, and supplies	9,750,157
Assistance, grants, and aid	4,665,802,477
Refunds, taxes, and claims	4,194,682
Debt service interest	252,296
Low value asset purchases	660,197
Capital outlay	7,358,652
TOTAL EXPENDITURES	4,866,131,459
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,694,425,708)

DEPARTMENT OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2025

	General Fund
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	$ 2,697,590,932
Education adequacy distribution	598,765,144
Education excellence general revenue	352,380,665
Arkansas Lottery Commission	111,817,897
Medicaid claims administration for pass-through to school districts	33,317,086
Federal grants and reimbursements from other state agencies	57,704,631
E-rate credit	16,486,665
Non-federal grant awards from other state agencies	2,956,046
Restricted Reserve Fund:	
DESE - School Safety Grants	50,000,000
Division of Higher Education - Teacher Academy Scholarship	12,000,000
DESE - Charter School Facilities	10,000,000
DESE - Phone Free School Initiative	7,000,000
Workforce 2000 Development Fund	883,206
Interagency transfers out:	
General revenue transfer to other state agencies	(8,489,176)
Real property reappraisal program costs	(10,830,000)
Medicaid matching	(14,052,736)
Surety bond premium	(48,750)
Assistance, grants, and aids to other state entities	(37,339,248)
Federal grants transferred to state entities	(43,074,240)
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)	(579,071)
Cyber Response Premium	(300,000)
Issuance of SBITAs	2,284,652
Prior-year warrants outlawed and cancelled	50,755
Prior-year refunds to expenditures	4,554,492
Other, net	(386,217)
TOTAL OTHER FINANCING SOURCES (USES)	3,842,692,733
NET CHANGE IN FUND BALANCE	148,267,025
FUND BALANCE - JULY 1	1,126,389,666
FUND BALANCE - JUNE 30	$ 1,274,656,691

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

DEPARTMENT OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

Exhibit C

	Custodial Funds
ASSETS	
Cash and cash equivalents	$ 61,688
Investments	1,009
TOTAL ASSETS	$ 62,697
NET POSITION	
Amounts held for students and student and school organizations	$ 62,697

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

DEPARTMENT OF EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2025

Exhibit D

	Custodial Funds
Additions:	
Student deposits and donations	$ 42,349
Interest income	96
Total Additions	42,445
Deductions:	
Student payments and withdrawals	54,859
Change in net position	(12,414)
Net position - beginning	75,111
Net position - ending	$ 62,697

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 796 of 2025 combined the Arkansas School for the Blind and Arkansas School for the Deaf into the Arkansas School for the Deaf and Blind.

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. The specific activity accounted for at this Agency are 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. § 19-4-804 requires that non-exempt 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, except for those specifically exempted by Ark. Code Ann. § 19-4-801.

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. §§ 19-3-310, -318. 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 $8,113,218, $980,178,538 and $12,838,500, 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, 2025, none of the Agency’s bank balance of $9,163,540 was exposed to custodial credit risk. The Agency’s deposits are shown below:

	Bank Balance
Insured (FDIC)	$ 2,015,176
Collateralized:	
Collateral held by the pledging financial institution's trust department or agent in the Agency's name	7,148,364
Total Deposits	$ 9,163,540

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

The Agency has the following recurring fair value measurements as of June 30, 2025:

Investment Type	Valuation Method	Amount
General Fund		
State treasury money management trust fund	Level 1	$ 558,577
Bonds	Level 1	341,954
Domestic securities	Level 1	621,503
Mutual funds	Level 1	175,194
Federated treasury obligations money market fund	Level 1	263,586
Total		$ 1,960,814

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. §§ 19-3-401 - 19-3-406 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. § 19-3-318). 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, 2025, the Agency has the following investment balances and segmented maturities:

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
General Fund					
State treasury money management trust fund	$ 558,577	$ 558,577			
Bonds	341,954	84,674	$ 129,267	$ 128,013	
Federated treasury obligations money market fund	263,585	263,585			
Total	$ 1,164,116	$ 906,836	$ 129,267	$ 128,013	$

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

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 22% 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, 2025 is as follows:

Rating	Fair Value
AAA	$ 263,585
AA	109,716
A	69,335
BBB	162,903
Unrated	558,577
Total	$ 1,164,116

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, 2025, the Agency has no investments that represent more than 5% of net investments, excluding the State Treasury Money Management Trust Fund.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Agency does not have an investment policy that limits investment in foreign currency.

E. 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.

F. Inventories

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Prepaid Expenses

Prepaid expenses generally represent the cost of consumable supplies on hand or unexpired services at year-end. The cost of these items is included with expenditures at the time of purchase. Prepaid expenses, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute "available, spendable financial resources."

H. Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

I. Fund Equity

<u>Fund Balance</u>

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.

J. 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: Leases and Subscription Based Information Technology Arrangements (SBITAs)

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, 2025, total lease related inflows recognized by the general fund were $16,487. The lease was terminated effective January 25, 2025. The Agency had no significant variable payments, residual value guarantees, or lease termination penalties related to its lease agreements as of June 30, 2025.

Lease and SBITA Obligations

The Agency leases nonfinancial assets including another party's IT software, alone or in combination with tangible capital assets. Since the financial statements of the Agency are presented using the modified accrual basis of accounting, no liability or leased asset is reflected on the balance sheet. Additional details regarding leased assets and related obligations are presented in Other General Information.

NOTE 3: 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 was a former member of the Arkansas State Board of Education through June 2025 and a member of the APSRC Policy Board. In fiscal year 2025, the Agency made grant payments to APSRC totaling $3 million that consisted of the following:

- Two payments, totaling $1.4 million, for invoices submitted for the Arkansas Leadership Academy.
- Two payments, totaling $1 million, for a grant to provide access to the Comprehensive Financial Analysis Model (CFAM) to all public and charter schools.
- Five payments, totaling $359,000, for a grant to provide Learning Blade to all public and charter schools.
- Other state and federal grant payments, totaling $223,000, associated with the phone-free pilot program and special education consultants.

In addition, the Agency provided $36,570 of various federal Childcare Development Block grant funds, Preschool Development funds, and state Child Care grants to Conway Cradle Care, a nonprofit childcare organization to assist teen parents. Dr. Sarah Moore volunteers as a member of this organization's board.

NOTE 4: 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, 2025, $390,000 was appropriated for the school worker defense program, $12,430 of funds were disbursed as legal fees, and no funds were disbursed for a settlement amount.

NOTE 5: Notes Receivable – Revolving Loan Certificates of Indebtedness

The Department of Education has executed certificates of indebtedness totaling $270,000 with 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, 2025, the annual interest rate on certificates of indebtedness was 4.95%.

Schedule 1

DEPARTMENT OF EDUCATION
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2025
(UNAUDITED)

	For the Year Ended June 30,				
	2025	2024	2023	2022	2021
General Fund					
Total Assets	$ 1,446,820,522	$ 1,370,299,414	$ 1,151,918,979	$ 960,093,975	$ 857,217,977
Total Liabilities	123,936,997	179,451,928	182,380,148	204,289,910	187,711,444
Total Deferred Inflows of Resources	48,226,834	64,457,820	75,347,157	68,383,905	44,086,184
Total Fund Equity	1,274,656,691	1,126,389,666	894,191,674	687,420,160	625,420,349
Net Revenues	1,171,705,751	1,315,918,975	1,298,970,686	1,312,608,584	958,381,993
Total Expenditures	4,866,131,459	4,913,765,041	4,607,200,781	4,626,961,106	4,170,620,237
Total Other Financing Sources (Uses)	3,842,692,733	3,830,044,058	3,515,001,609	3,376,352,333	3,335,230,634
Aggregate Remaining Fund Information					
Total Assets	62,697	75,111	64,429	81,422	101,065
Total Net Position	62,697	75,111	64,429	81,422	101,065
Additions	42,445	92,176	49,659	32,631	52,585
Deductions	54,859	81,494	66,652	52,274	34,397

DEPARTMENT OF EDUCATION
FINANCIAL INFORMATION BY BUSINESS AREA
JUNE 30, 2025
(UNAUDITED)

Schedule 2

Board/Commission/Division	Business Area	Assets	Liabilities & Deferred Inflows	Revenues	Expenditures	Other Financing Sources/(Uses)
Martin Luther King, Jr., Commission	318	$ 72,970		$ 214,410	$ 647,747	$ 367,906
Division of Elementary and Secondary Education	500	978,755,668	$ 160,934,573	1,145,948,440	4,623,191,023	3,584,284,613
Arkansas School for the Blind	510	17,898,450	64,526	494,167	9,543,312	7,888,723
Arkansas School for the Deaf	513	15,872,293	62,318	277,084	13,757,314	11,616,354
Arkansas State Library	519	1,470,294	103,581	2,220,074	11,199,723	9,121,050
Northwest Technical Institute	552	5,826,860	295,723	2,830,864	9,154,677	6,938,801
Division of Career and Technical Education	590	17,493,604	2,760,932	15,690,749	27,511,428	14,324,941
Division of Higher Education	700	405,417,019	6,256,491	4,029,963	163,066,725	199,032,697
Department of Education (cabinet-level)	9904	4,013,364	1,685,687		8,059,510	9,117,648
Totals		$ 1,446,820,522	$ 172,163,831	$ 1,171,705,751	$ 4,866,131,459	$ 3,842,692,733

DEPARTMENT OF EDUCATION

Schedule 3

SCHEDULE OF BUDGET AND ACTUAL EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2025

(UNAUDITED)

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
AASIS DISBURSEMENTS				
Regular salaries	$ 56,235,727	$ 65,512,451	$ 53,752,076	$ 11,760,375
Extra help	1,976,323	1,661,688	1,268,930	392,758
Operating expenses	146,966,647	238,256,146	115,607,803	122,648,343
Personal services matching	20,692,293	24,303,507	21,522,063	2,781,444
Grants and aids	5,986,763,443	6,219,185,824	4,791,201,891	1,427,983,933
Conference fees and travel	2,064,803	2,064,275	549,519	1,514,756
Professional fees and services	27,321,003	28,061,129	4,498,281	23,562,848
Capital outlay	1,230,000	22,836,670	512,528	22,324,142
Purchases for resale	325,000	325,000	139,622	185,378
Promotional items		20,000	20,863	(863)
Marketing and redistribution proceeds		5,654		5,654
Special maintenance	2,754,114			
Refunds and reimbursements	15,569,017	24,620,017	22,824,185	1,795,832
Claims		389,900	12,430	377,470
Loans	18,933,355	16,991,455	1,394,355	15,597,100
Scholarships	4,425,000	23,830,000	11,396,774	12,433,226
TOTAL AASIS DISBURSEMENTS	$ 6,285,256,725	$ 6,668,063,716	5,024,701,319	$ 1,643,362,396
Reconciliation to total expenditures:				
Net accruals			(80,466,165)	
Expenditures eliminated or reclassified as transfers for reporting purposes			(79,901,180)	
Increase (decrease) in uncollectable acccounts receivable			174,266	
Student loans forgiven			1,612,434	
Miscellaneous items			10,785	
TOTAL EXPENDITURES			$ 4,866,131,459	

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, 2025, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 516,348	$ 10	$ 10	$ 516,348
Improvements	1,157,388	83,944	2,250	1,239,082
Buildings	42,560,321	2,595,115	2,138,201	43,017,235
Equipment	12,796,506	533,557	456,973	12,873,090
Infrastructure	1,945,408	222,032	222,032	1,945,408
Library holdings	686,653			686,653
Construction in progress	4,133,828	4,058,903	4,133,828	4,058,903
Software	4,302,422	4,793,920	377,774	8,718,568
Other capital assets	74,588	5,073		79,661
Right-to-Use assets:				
RtU buildings	131,249		131,249	
RtU SBITAs	24,518,603	2,284,651	13,932,930	12,870,324
Total Governmental activities	$ 92,823,314	$ 14,577,205	$ 21,395,247	$ 86,005,272

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 5.75% 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, 2025, 2024, and 2023, were $2,314,520, $ 2,079,344, and $856,461, 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, 2025, 2024, and 2023, were $5,702,369, $5,667,256, and $6,229,097, 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, 2025, 2024, and 2023, were $73,359, $65,372, and $64,198, respectively, equal to the required contributions for each year.

Variable Annuity Life Insurance Company (VALIC)

Plan Description – The Agency participates in VALIC, 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 VALIC. VALIC is a subsidiary of American International Group, Inc., an insurance corporation that specializes in tax-qualified retirement plans and supplemental tax-deferred, after tax-deferred, and after-tax investments. Arkansas law authorizes participating in the plan.

Funding Policy – VALIC 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, 2025, 2024, and 2023, were $79,895, $89,829, and $109,299, 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 Shared and Administrative Services – Employee Benefits Division (DSAS-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DSAS-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 DSAS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DSAS-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 Shared and Administrative 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 DSAS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

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, 2025 and 2024, amounted to $12,865,424 and $5,124,934, respectively. The net changes to compensated absences payable during the year ended June 30, 2025, amounted to $7,740,490.

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

The Agency acquired property, such as a building, 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, but that lease ended during fiscal year ended June 30, 2025. 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 exchange or exchange-like transaction under GASB Statement No. 96. 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, 2025, were as follows:

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

SBITA Obligations

Years Ending June 30,	Principal	Interest	Total
2026	$ 2,708,196	$ 235,974	$ 2,944,170
2027	2,511,096	146,198	2,657,294
2028	635,885	73,296	709,181
2029	671,698	50,211	721,909
2030	709,219	25,801	735,020
Totals	$ 7,236,094	$ 531,480	$ 7,767,574

F. 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.

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, 2025, were as follows:

	Final Maturity Date June 1,	Interest Rates %	Balance
Higher Education Bonds:			
2015 Series, G.O. Bonds	2029	4.00 - 4.25	$ 74,325,000

Future amounts required to pay principal and interest on general obligation bonds as of June 30, 2025, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	$ 74,325,000	$ 6,880,600	$ 81,205,600

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

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 2025 fiscal year.