Arkansas

# Department of Finance and Administration

# Annual Financial Report

# June 30, 2021

**ANNUAL FINANCIAL REPORT**
**FOR THE YEAR ENDED JUNE 30, 2021**
**TABLE OF CONTENTS**

Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

## INDEPENDENT AUDITOR'S REPORT

Department of Finance and Administration
Legislative Joint Auditing Committee

### *Report on the Financial Statements*

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Department of Finance and Administration as of June 30, 2021, the respective changes in financial position, and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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***Emphasis of Matter***

As indicated above, the financial statements of the Department of Finance and Administration are intended to present the financial position, the changes in financial position and, where applicable, cash flows of each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of Finance and Administration. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows 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.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information, listed in the accompanying table of contents, be presented to supplement the departmental financial statements. Such information, although not a part of the departmental financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the departmental financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the departmental financial statements, and other knowledge we obtained during our audit of the departmental financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Finance and Administration 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 Finance and Administration individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2022, on our consideration of the Department of Finance and Administration'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 that testing, and not to provide an opinion on the effectiveness of the Department of Finance and Administration'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 of Finance and Administration's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger A. Norman

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

Little Rock, Arkansas
August 4, 2022
SAC990621

Arkansas

Sen. Ronald Caldwell
Senate Chair
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Senate Vice Chair

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House Chair
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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 Finance and Administration
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the Department of Finance and Administration (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department of Finance and Administration's departmental financial statements, and have issued our report thereon dated August 4, 2022.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2021-1, 2021-2, and 2021-3.

## SCHEDULE OF FINDINGS AND RESPONSES

2021-1 The Department of Finance and Administration (DFA) notified us of the following shortages occurring at Revenue Offices throughout the State.

- At the Springdale Revenue Office, deposits of $200, $400, and $500 were missing during May, July, and August 2021, respectively. DFA's investigations were inconclusive due to a lack of security camera footage and witnesses to any potential theft. The Revenue Office continues to be monitored by DFA management.
- On July 27, 2021, a $1,000 shortage was discovered during a routine reconciliation at the Sheridan Revenue Office. DFA was unable to determine criminal intent by the custodian of funds; however, this employee was moved to a different work location and continues to be monitored by DFA management.
- A shortage of $360 was discovered at the Bald Knob Revenue Office on May 6, 2022. Based on DFA interviews with the employee involved in the transaction and the immediate supervisor, criminal intent could not be established. Both individuals were given the option to move work locations but instead resigned from employment.

In addition, an employee at the Fort Smith Revenue Office issued 160 driver licenses, without the proper documentation required, for apparent personal gain. After being questioned by DFA, the employee acknowledged the offense and resigned from employment. DFA cancelled the suspected driver's licenses and turned the case over to Fort Smith Homeland Security and the United States Attorney's Office. The former employee has been charged with Honest Service Fraud (18 U.S.C Sec. 1346) and Bringing in and Harboring Certain Aliens (8 U.C.S. Sec. 1324).

Recommendation: We recommend the Agency reinforce controls around daily procedures to ensure all collections are properly accounted for and obtain all the required documentation when processing Revenue Office transactions.

***Management Response:*** *We agree with Legislative Audit's recommendation and we are reinforcing controls around daily procedures to help ensure collections are properly accounted for and documented. Furthermore, we will continue our rigorous monitoring and self-reporting of issues as we did in all three instances cited heretofore. We have enhanced our training efforts, with a focus on new employees. We have added a new procedure in response to the aforementioned incidents. Moreover, we have enhanced collaboration and best practices sharing among agency headquarters and staff in the field.*

2021-2 The Racing Commission failed to deposit timely four checks totaling $196,119, with one check remaining undeposited for over seven months.

In addition, approved Board meeting minutes were not available for review beyond the March 2020 meeting.

Recommendation: We recommend the Commission deposit checks received as soon as possible to prevent misappropriation of funds and to maximize the amount of interest earned. We also recommend the Commission ensure Board meeting minutes are approved timely and available for review.

***Management Response:*** *The Racing Commission Administrator and Administrative Assistant are currently working to compile all missing commission minutes. All previous commission minutes will be reviewed and approved in the October 2022 commission meeting and posted on the Commission's website. All future meetings will be recorded or transcribed and will be approved and posted promptly. During the COVID-19 pandemic, the Commission did not meet regularly; however, this matter will not be an issue in subsequent audits.*

*We concur with Legislative Audit's recommendation. Once the checks were identified as being outstanding, the checks were located and deposited. Subsequent to this issue, the staff have received and deposited checks in a timely manner.*

2021-3 According to Capital Asset Guidelines (P1-19-4-1503), "If an agency has a specialized inventory system that provides more functionality for their business processes than the AASIS fixed asset module for those assets under $2,500 that are easily pilferable, they may use their system for tracking these items instead of AASIS." A review of the Office of Information Systems' (OIS) low-value database revealed the following:

- The database is not being maintained or updated timely.
- Routine inventories by the Agency were not conducted.
- Thirteen assets were not properly recorded.
- Of 40 assets chosen for observation, four could not be located.

Recommendation: We recommend the Office of Information Systems perform routine inventories of low-value assets and update the database timely.

***Management Response:*** *To address the finding, Department of Finance and Administration – Office of Information Services (DFA-OIS) has taken the following actions:*

1. *Addressed issues and inaccuracies in the database including:*
    a. *Removed consumable items that should not be tracked as part of the inventory database (i.e., keyboards, mice, network cables, etc.);*
    b. *Removed items that were vendor owned and not considered an asset or consumable that DFA-OIS is responsible for. These items are used under contract by a vendor who is solely responsible for the tracking of their own assets;*
    c. *Added a new report to create fiscal year inventory status that will be used to create an inventory lists that will be used to schedule routine audits; and,*
    d. *Instituted the use of barcode scanners and an import process to prevent erroneous and duplicate information from being added to the database as well as creating a consistent naming convention for assets.*
2. *Revised an outdated Standard Operating Procedure for OIS Asset Management and included, at a minimum, an annual review of the Procedure document for accuracy and update, as needed.*
3. *Hired one additional IT04 who will work with the current IT05 to perform inventories for all IT assets in the Department on an annual basis.*

***Agency's Response to Findings***

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

***Purpose of this Report***

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 4, 2022

# BASIC FINANCIAL STATEMENTS

## Balance Sheet
## Governmental Fund
## June 30, 2021

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 3,071,703,045 |
| Investments | | 4,099,886 |
| Receivables, net: | | |
| Accounts | | 2,139,698 |
| Taxes | | 472,976,530 |
| Loans | | 40,062 |
| Due from other funds | | 49,040 |
| Due from other State agencies | | 37,241,909 |
| Advances to other State agencies | | 11,350,000 |
| Due from other governments | | 11,456,633 |
| Prepaid items | | 2,356,753 |
| Inventories | | 849,072 |
| Total assets | $ | 3,614,262,628 |
| **Liabilities, Deferred Inflows of Resources and Fund Balance** | | |
| Liabilities: | | |
| Accounts payable | $ | 3,594,773 |
| Accrued and other current liabilities | | 12,745,639 |
| Unearned revenue | | 3,481,663 |
| Income tax refunds payable | | 280,477,609 |
| Due to other governments | | 855,198,104 |
| Due to other State agencies | | 21,367,953 |
| Due to other funds | | 75 |
| Loans from other State agencies | | 1,000,000 |
| Total liabilities | | 1,177,865,816 |
| Deferred inflows of resources: | | |
| Related to revenues | | 59,174,529 |
| Total liabilities and deferred inflows of resources | | 1,237,040,345 |
| Fund balance: | | |
| Nonspendable | | |
| Prepaid items | | 2,356,753 |
| Inventories | | 849,072 |
| Loans | | 40,062 |
| Restricted | | 232,518,695 |
| Committed | | 1,471,053,902 |
| Assigned | | 2,799,389 |
| Unassigned | | 667,604,410 |
| Total fund balance | | 2,377,222,283 |
| Total liabilities, deferred inflows of resources and fund balance | $ | 3,614,262,628 |

The notes to the financial statements are an integral part of this statement.

## Statement of Revenues, Expenditures and Changes in Fund Balance
## Governmental Fund
## For the Year Ended June 30, 2021

| | |
|---|---|
| **Revenues:** | |
| Taxes: | |
| Personal and corporate income | $ 3,921,443,220 |
| Consumers sales and use | 3,501,916,180 |
| Gas and motor carrier | 944,010 |
| Other | 762,495,793 |
| Intergovernmental | 637,007,765 |
| Licenses, permits and fees | 134,191,608 |
| Investment earnings | 575,960 |
| Miscellaneous | 106,538,962 |
| Total revenues | 9,065,113,498 |
| **Expenditures:** | |
| Salaries | 127,009,863 |
| Communication and transportation of commodities | 9,261,174 |
| Commodities, materials and supplies | 14,001,218 |
| Printing and advertising | 279,704 |
| Repairs and services | 11,225,093 |
| Utilities and rent | 12,092,799 |
| Travel and subsistence | 350,181 |
| Professional services | 56,330,628 |
| Insurance and bonds | 916,541 |
| Assistance, grants and aid | 260,862,919 |
| Other expenses and services | 26,318,484 |
| Refunds, taxes and claims | 5,046,400 |
| Capital outlay | 2,343,761 |
| Total expenditures | 526,038,765 |
| Excess of revenues over expenditures | 8,539,074,733 |
| **Other financing sources (uses):** | |
| Transfers in | 301,789,161 |
| Transfers out | (8,130,045,268) |
| Total other financing sources (uses) | (7,828,256,107) |
| Net change in fund balance | 710,818,626 |
| Fund balance - beginning (as restated) | 1,666,403,657 |
| Fund balance - ending | $ 2,377,222,283 |

The notes to the financial statements are an integral part of this statement.

## Statement of Net Position
## Proprietary Funds
## June 30, 2021

| | | |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ | 6,574,637 |
| Cash and cash equivalents - restricted | | 153,129,833 |
| Accounts receivable, net | | 18,546,954 |
| Due from other funds | | 75 |
| Prepaid items | | 124,688 |
| Total current assets | | 178,376,187 |
| **Noncurrent assets:** | | |
| Restricted assets: | | |
| Cash and cash equivalents | | 20,500,022 |
| Deposits with Multi-State Lottery Association | | 2,130,976 |
| Capital assets: | | |
| Depreciable, net | | 1,394,688 |
| Total noncurrent assets | | 24,025,686 |
| **Deferred Outflows of Resources** | | |
| Deferred outflows related to pensions | | 1,285,278 |
| Deferred outflows related to other post employment benefits | | 759,944 |
| Total deferred outflows | | 2,045,222 |
| Total assets and deferred outflows of resources | $ | 204,447,095 |
| **Liabilities** | | |
| **Current liabilities:** | | |
| Accounts payable | $ | 5,127 |
| Prizes payable | | 24,985,566 |
| Accrued and other liabilities | | 7,305,614 |
| Due to other funds | | 49,040 |
| Due to other State agencies | | 541,759 |
| Due to Education Trust Account | | 31,238,197 |
| Due to Workforce Challenge Trust Account | | 120,891,636 |
| Claims, judgments and compensated absences | | 62,737 |
| Other postemployment benefits liability | | 123,792 |
| Unearned revenue | | 217,870 |
| Total current liabilities | | 185,421,338 |
| **Noncurrent liabilities:** | | |
| Other postemployment benefits liability | | 4,492,957 |
| Net pension liability | | 5,317,319 |
| Claims, judgments and compensated absences | | 342,802 |
| Total noncurrent liabilities | $ | 10,153,078 |

*Continued on the following page*

**Statement of Net Position**
**Proprietary Funds**
**June 30, 2021**

*Continued from the previous page*

| | | |
|---|---|---|
| **Deferred Inflows of Resources** | | |
| Deferred inflows related to pensions | $ | 258,159 |
| Deferred inflows related to other post employment benefits | | 407,256 |
| Total deferred inflows of resources | | 665,415 |
| Total liabilities and deferred inflows of resources | | 196,239,831 |
| **Net Position** | | |
| Net investment in capital assets | | 1,394,688 |
| Restricted for: | | |
| Expendable | | |
| Scholarship shortfall reserve | | 20,000,000 |
| Retailer bond reserve | | 500,000 |
| Deposits with Multi-State Lottery Association | | 2,130,976 |
| Unclaimed prizes reserve | | 1,000,000 |
| Unrestricted | | (16,818,400) |
| Total net position | | 8,207,264 |
| Total liabilities, deferred inflows of resources and net position | $ | 204,447,095 |

The notes to the financial statements are an integral part of this statement.

## Statement of Revenues, Expenses and Changes in Net Position
## Proprietary Funds
## For the Year Ended June 30, 2021

| | | |
|---|---|---|
| **Operating revenues:** | | |
| Instant ticket sales | $ | 529,369,617 |
| Online ticket sales | | 102,565,310 |
| Retailer application, fidelity, bond and service fees | | 643,517 |
| Other revenue | | 1,450 |
| Total operating revenues | | 632,579,894 |
| **Operating expenses:** | | |
| Instant game prizes | | 383,337,055 |
| Online game prizes | | 56,809,420 |
| Retailer commissions | | 35,732,276 |
| Gaming contract costs | | 34,080,392 |
| Compensation and benefits | | 5,525,220 |
| Marketing, advertising and promotions | | 7,229,142 |
| General and administrative expenses | | 5,874,071 |
| Services provided by Arkansas Division of Higher Education | | 530,853 |
| Services provided by Arkansas Legislative Audit | | 155,070 |
| Legal and professional services | | 675 |
| Depreciation | | 448,620 |
| Total operating expenses | | 529,722,794 |
| Operating income | | 102,857,100 |
| **Nonoperating revenues (expenses):** | | |
| Investment earnings | | 835,596 |
| Income before transfers | | 103,692,696 |
| Transfers out | | (106,417,224) |
| Change in net position | | (2,724,528) |
| Total net position - beginning | | 10,931,792 |
| Total net position - ending | $ | 8,207,264 |

The notes to the financial statements are an integral part of this statement.

## Statement of Cash Flows
## Proprietary Funds
## For the Year Ended June 30, 2021

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from retailers and others | $ | 631,663,508 |
| Cash paid for prizes | | (437,271,456) |
| Cash paid for gaming vendors | | (31,520,711) |
| Cash paid for retailer commissions | | (35,732,276) |
| Cash paid for marketing and advertising | | (7,528,145) |
| Cash paid for employee services | | (4,798,539) |
| Cash paid for other expenses | | (6,628,343) |
| Net cash provided by operating activities | | 108,184,038 |
| **Cash flows from noncapital financing activities:** | | |
| Transfers to Arkansas Division of Higher Education | | (70,900,000) |
| Transfers from Arkansas Division of Higher Education | | 4,466,023 |
| Net cash used in noncapital financing activities | | (66,433,977) |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition and construction of capital assets | | (60,869) |
| Net cash used in capital and related financing activities | | (60,869) |
| **Cash flows from investing activities:** | | |
| Interest and dividends on investments | | 835,596 |
| Net cash provided by investing activities | | 835,596 |
| Net increase in cash and cash equivalents | | 42,524,788 |
| Cash and cash equivalents - beginning | | 137,679,704 |
| Cash and cash equivalents - ending | $ | 180,204,492 |
| | | |
| **Reconciliation of operating income to net cash provided (used) by operating activities:** | | |
| Operating income | $ | 102,857,100 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | | 448,620 |
| Pension expense | | 236,441 |
| Other post employment benefits expense | | 300,428 |
| Net changes in assets and liabilities: | | |
| Accounts receivable | | (855,829) |
| Prepaid items | | (83,728) |
| Deposits with Multi-State Lottery Association | | 384,377 |
| Accounts payable and other accrued liabilities | | (914,625) |
| Prizes payable | | 2,490,641 |
| Accrued and other liabilities | | 3,370,119 |
| Due to other funds of the State | | 32,952 |
| Compensated absences | | (21,903) |
| Unearned revenue | | (60,555) |
| Net cash provided by operating activities | $ | 108,184,038 |

The notes to the financial statements are an integral part of this statement.

## Statement of Fiduciary Net Position
## Fiduciary Funds
## June 30, 2021

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 115,769,351 |
| Total assets | $ 115,769,351 |
| **Liabilities** | |
| Due to other governments | $ 108,112,569 |
| Child support payable | 7,656,782 |
| Total liabilities | $ 115,769,351 |
| **Net Position** | |
| Total net position | $ |

The notes to the financial statements are an integral part of this statement.

## Statement of Changes in Fiduciary Net Position
## Fiduciary Funds
## For the Year Ended June 30, 2021

| | | |
|---|---|---|
| Additions: | | |
| Child support deposits | $ | 310,529,550 |
| Federal grant receipts for non-entitlement units of local government | | 108,112,569 |
| Total additions | | 418,642,119 |
| Deductions: | | |
| Child support disbursements | | 310,529,550 |
| Federal grant disbursements for non-entitlement units of local government | | 108,112,569 |
| Total deductions | | 418,642,119 |
| Net position - beginning | | |
| Net position - ending | $ | |

The notes to the financial statements are an integral part of this statement.

## Notes to the Financial Statements – Table of Contents

**Notes to the Financial Statements**
**For the Year Ended June 30, 2021**

## (1) Summary of Significant Accounting Policies

### (a) Basis of Presentation – Fund Financial Statements

The following describes the major funds and categories used in the accompanying financial statements:

#### Governmental Fund

The General Fund is the major governmental fund of the Department of Finance and Administration (the Department). It is used to account for all financial resources obtained and expended for those services normally provided by the Department which are not accounted for in other funds.

The focus of Governmental Fund measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income.

#### Proprietary Fund

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position and cash flows, which is similar to a business. These funds are used to account for operations of the Department that provide goods or services to the public on a user-charge basis or where the Department has decided that periodic determination of revenues earned, expenses incurred and income or loss is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Department has one Enterprise fund as described below:

***Office of the Arkansas Lottery (OAL)***

The OAL's primary purpose is to supplement higher education scholarships with net proceeds from the State's lotteries.

#### Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the Department and are custodial in nature. These Custodial funds account for the collection and disbursement of sales and use taxes to local governments within the State, the collection and disbursement of child support payments to the custodial parent and for other miscellaneous accounts for the benefit of other parties.

#### Transfers

In the fund financial statements, transfers represent flows of cash or assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides the funding to the fund which expends the resources.

**(b) Accounting Restatement**

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

| **General Fund** | |
|---|---|
| Beginning fund balance | $ 1,666,396,536 |
| Prior year Statement 84: | |
| Net Fiduciary Activities | 7,121 |
| Beginning fund balance, restated | $ 1,666,403,657 |

**(c) Measurement Focus and Basis of Accounting**

The governmental fund financial statements are prepared using a "flow of current financial resources" measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Available means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., 45 days). Tax revenue is recognized to the extent that it is both measurable and available. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when consumed and (2) principal and interest on long-term debt, claims and judgments and compensated absences are recorded when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating revenues and expenses.

## (d) Assets, Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position or Fund Balance

### Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, 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.

### Investments

The Department has an investment in commercial paper which is reported at amortized cost.

### Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.”

### Inventories and Prepaid Items

Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund inventories are recorded using the consumption method which records expenditures when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements. Inventory and prepaid balances, as reported in the general fund financial statements, are recorded as non-spendable components of fund balance indicating that they do not constitute “available, spendable financial resources.”

### Noncurrent Cash and Investments

Cash and investments that are externally restricted to maintain sinking or reserve funds are classified as noncurrent assets in the statement of net position.

### Capital Assets

#### *Methods Used to Value Capital Assets*

Capital assets, which include property, plant, equipment and intangible assets, are reported as expenditures at the time of purchase. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of acquisition.

### *Capitalization Policies*

All land and other non-depreciable assets are capitalized, regardless of cost. Buildings and building improvements are capitalized when the cost of the building, or an improvement which becomes an integral part of the building, exceeds $100,000. All other tangible assets, including equipment, are capitalized when the cost of an individual item exceeds $5,000 and the estimated useful life exceeds one year. Intangible assets are recorded at historical cost and depreciated using the same method for tangible assets. It is the State's policy to capitalize when the individual item's cost exceeds $1,000,000 for internally generated software or $5,000 for all other intangible assets and the estimated useful life exceeds one year.

The costs of normal maintenance and repairs that do not significantly add to the value of assets or materially extend asset lives are not capitalized.

### *Depreciation and Useful Lives*

Applicable capital assets are depreciated using the straight-line method, with a full month charged for assets acquired in the first half of the month and a half-month charged for assets acquired in the second half of the month. Assets are assigned estimated useful lives most suitable for the particular asset. Estimated useful lives generally assigned are as follows:

| Assets | Useful Life |
|---|---|
| Equipment | 5 to 20 years |
| Buildings and building improvements | 20 to 50 years |
| Infrastructure | 10 to 40 years |
| Land improvements | 10 to 100 years |
| Other tangible and intangibles | 5 to 20 years |
| Art/Historical treasures/Library holdings | 15 years |

### Income Tax Refunds Payable

Income tax refunds are accounted for as a reduction in the appropriate tax revenue category. The amount reported as income tax refunds payable at June 30, 2021, is related to projected refund estimates attributable to fiscal year 2021 tax revenues.

### Compensated Absences

In the proprietary fund financial statements, the Department accrues liabilities for compensated absences as services are incurred and benefits accrue to employees. In the governmental fund financial statements, liabilities for compensated absences are accrued only if they have matured and are recorded in the fund only for separations or transfers that occur before year-end.

### Unearned Revenue

In the governmental and proprietary fund financial statements, unearned revenue is recognized when revenue is received before delivery of a service or product.

### Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. These items will not be recognized as an outflow of resources (an expense or expenditure) until a future period.

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

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension fund, and the additions to and deductions from the fiduciary net position have been determined on the same basis as they are reported by the retirement system. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms.

### Net Position/Fund Balance

The difference between total assets, total deferred outflows of resources, total liabilities and total deferred inflows of resources is presented as “Net Position” on the proprietary financial statements and as “Fund Balance” on the governmental fund financial statements.

### Fund Balance Classifications

In the governmental fund financial statements, fund balance is reported in one of five classifications based on the constraints imposed on the use of the resources.

#### *Non-spendable Fund Balance*

The non-spendable fund balance includes amounts that cannot be spent because they are either not in spendable form (for example, prepaid items and inventories) or are legally or contractually required to be maintained intact.

The spendable portion of fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

#### *Restricted Fund Balance*

This classification reflects constraints imposed on resources either (1) externally by creditors, grantors, contributors or laws or regulations of other governments or (2) imposed 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 legislation.

*Assigned Fund Balance*

This classification reflects amounts constrained by the Department'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 by 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 Department's policy to use the resources in this order: restricted, committed, assigned and unassigned. See Note 8 for additional information about fund balances.

**Restricted Assets/Net Position**

Assets and net position are reported as restricted when constraints placed on the asset or net position are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net position primarily consists of unemployment compensation and various other purposes and may be used only for the legally restricted purposes as allowed by law.

**Reclassifications**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

**(e) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### (f) New Accounting Pronouncements Not Yet Required to be Adopted

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement was to provide temporary relief to governments due to the COVID-19 pandemic. The relief was provided in the form of postponement of effective dates of certain Statements. The Statement was effective when issued. The information for the following Statements discussed below reflect the implementation dates provided in Statement No. 95:

- GASB Statement No. 87
- GASB Statement No. 91
- GASB Statement No. 92
- GASB Statement No. 93

GASB Statement No. 87, *Leases,* provides accounting and financial reporting requirements for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The Statement establishes a single model for lease accounting based on the principle that leases are financing arrangements of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (i.e., fiscal year 2022).

GASB Statement No. 91, *Conduit Debt Obligations*, establishes a single method of reporting conduit debt obligations by issuers. The single method is designed to reduce diversity in practice. The Statement defines a conduit debt obligation. A government issues a conduit debt obligation for the benefit of a third party that is not part of the government's financial reporting entity. The issuer should not recognize a liability for the obligation as the third party is primarily responsible for repaying the debt. However, if the issuer makes additional or voluntary commitments, it should recognize a liability for the commitments if certain criteria are met. The issuer must disclose general information about their conduit debt obligations and a description of each commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (i.e., fiscal year 2023).

GASB Statement No. 92, *Omnibus 2020*, addresses several practice issues to improve consistency of application and comparability in accounting and financial reporting. Issues addressed include:

- Intra-entity transfers of assets.
- Reporting assets accumulated for postemployment benefits.
- Application of GASB Statement No. 84 to postemployment benefit arrangements.
- Measurement of asset retirement obligations in a government acquisition.
- Reporting by public entity risk pools.
- Reference to nonrecurring fair value measurements in authoritative guidance.
- Terminology used to refer to derivative instruments in authoritative guidance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (i.e., fiscal year 2022).

GASB Statement No. 93, *Replacement of Interbank Offered Rates,* addresses accounting and financial reporting issues related to the replacement of an interbank offered rate (IBOR). IBORs are commonly used as the basis for variable payments in various financial instruments and derivative instruments. The London Interbank Offered Rate (LIBOR) is expected to be terminated as an IBOR by the end of 2021. This Statement provides guidance on accounting for the replacement of an IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (i.e., fiscal year 2022).

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* addresses accounting and financial reporting issues related to public-public partnerships and public-private partnerships (PPPs) and availability payment arrangements (APA). PPPs are arrangements in which the transferor contracts with an operator to provide public services by conveying the use of a nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement requires PPPs that meet the definition of a lease to be accounted for using provisions in GASB Statement No. 87. For all other PPPs, the applicable provisions in this Statement are to be applied. APAs are arrangements in which the government compensates an operator for services such as designing, constructing, financing, maintaining or operating a nonfinancial asset for a period of time in an exchange or exchange-like transaction. Applicable provisions of this Statement are to be applied to APAs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 (i.e., fiscal year 2023).

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* addresses accounting and financial reporting of subscription-based information technology arrangements (SBITAs). A SBITA is a contract that coveys control of the right to use another party's (the vendor) information technology (IT) software, either alone or in combination with tangible capital assets (underlying IT assets) for a specified period of time. This Statement provides that the government should recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability. The subscription liability is measured using the future expected subscription payments discounted to their present value. The subscription asset is measured as the sum of the subscription liability, payments made in advance, and any implementation costs. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (i.e., fiscal year 2023).

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* addresses issues related to evaluating a potential component unit and accounting and financial reporting of IRC Section 457 deferred compensation plans. For purposes of determining whether a potential component unit should be reported by a primary government, this Statement makes amendments to previous guidance regarding appointment of a voting majority and the financial burden criterion. For purposes of determining if an IRC Section 457 plan should be reported by the sponsoring government, this Statement requires the plan to be reported as a pension plan if it meets the definition. In addition, if the IRC Section 457 plan does not meet the definition of a pension plan, it should be determined if it should be reported as a fiduciary activity.

Requirements are effective immediately except that the following are effective for fiscal years beginning after June 15, 2021 (i.e., fiscal year 2022):

- Requirements related to accounting and financial reporting of Section 457 plans.
- Requirements related to determining whether the primary government is financially accountable for potential component units except those specifically exempted from the requirements as described in the Statement.

## (2) Deposits and Investments

The deposits and investments of the DFA are exposed to risks that have the potential to result in losses. The following information discloses risks related to custodial credit risk, interest rate risk and credit risk, as well as policies related to these risks.

### (a) Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the Department may not be able to recover deposits or collateral securities that are in the possession of an outside party.

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

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

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

The SBF policy states that cash funds may only be invested in accounts and investments authorized under Ark. Code Ann. §19-3-510 and §19-3-518. 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 the 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.

State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of the State is responsible for ensuring these funds are adequately insured and collateralized.

At June 30, 2021, the reported cash in bank and cash in State Treasury of the general fund were $52,147,639 and $3,022,637,232, respectively. None of the general fund deposits were exposed to custodial credit risk.
At June 30, 2021, the reported cash in bank and cash in State Treasury of the enterprise funds were $180,312,089 and $181,041, respectively. None of the enterprise fund deposits were exposed to custodial credit risk.

At June 30, 2021, the reported cash in bank and cash in State Treasury of the fiduciary funds were $7,656,782 and $108,112,569, respectively. None of fiduciary fund deposits were exposed to custodial credit risk.

### (b) Investments

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the DFA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Ark. Code Ann. §19-3-518 states that trust fund accounts in the State Treasury may be invested in (a) Certificates of deposits of banks and savings and loan associations and (b) securities eligible under other law. State Treasury Management Law governs the management of funds held in the State Treasury and the Treasurer of the State is responsible for ensuring investments comply with State policy. The policy states, in part, that investment securities are to be held in safekeeping by a bank or financial institution, the expected maturity of any security will not exceed 10 years (with some specific exceptions), and the credit rating for readily marketable commercial paper carry an investment rating of A-1 or better by Standard & Poor's Rating Services (S & P) for maturities not exceeding 180 days.

At June 30, 2021, the DFA had an investment in commercial paper of $4,099,886 held properly in safekeeping with a maturity of less than 180 days and an A-1 credit rating from S & P.

## (3) Receivables

Receivables at June 30, 2021, consisted of the following:

| | Accounts | Taxes | Loans | Allowance for Uncollectibles | Total |
|---|---|---|---|---|---|
| General Fund | $ 2,585,218 | $ 931,433,181 (1) | $ 40,062 | $ (458,902,171) | $ 475,156,290 |
| Enterprise Fund | 18,546,954 | | | | 18,546,954 |
| Total | $ 21,132,172 | $ 931,433,181 | $ 40,062 | $ (458,902,171) | $ 493,703,244 |

(1) Receivable balances of $6,306,226 are not expected to be collected within one year of the date of the financial statements.

## (4) Intergovernmental Activity

### Interfund Receivables and Payables:

| | Due From | | |
|---|---|---|---|
| **Due To** | **General Fund** | **Enterprise Funds** | **Total** |
| General Fund | $ | $ 49,040 | $ 49,040 |
| Enterprise Funds | 75 | | 75 |
| Total | $ 75 | $ 49,040 | $ 49,115 |

Interfund receivables and payables include $75 for Marketing and Redistribution proceeds due from the General Fund to the Office of the Arkansas Lottery. The Office of the Arkansas Lottery owes the General Fund $49,040 for administration fees. All amounts are expected to be repaid within one year.

## (5) Capital Assets

### Primary Government

As reported in the Government-Wide financial statement of the State, the Department's capital asset activity for the year ended June 30, 2021, was as follows:

| | Balance July 1, 2020 | Adjustments/ Transfers (1) | Additions | Deletions | Balance June 30, 2021 |
|---|---|---|---|---|---|
| **Governmental activities (2):** | | | | | |
| Capital assets, non-depreciable/amortizable: | | | | | |
| Land and easements | $ 555,277 | $ | $ | $ | $ 555,277 |
| Construction in progress | 289,824 | | 1,798,108 | | 2,087,932 |
| Total capital assets, non-depreciable/amortizable | 845,101 | | 1,798,108 | | 2,643,209 |
| Capital assets, depreciable/amortizable: | | | | | |
| Land improvements | 18,653 | | | | 18,653 |
| Infrastructure | 27,100 | | | | 27,100 |
| Buildings | 28,554,457 | | | | 28,554,457 |
| Equipment | 27,255,014 | (186,851) | 545,653 | (502,784) | 27,111,032 |
| Intangibles | 56,427,821 | | | (2,500) | 56,425,321 |
| Total capital assets, depreciable/amortizable | 112,283,045 | (186,851) | 545,653 | (505,284) | 112,136,563 |
| Less accumulated depreciation/amortization for: | | | | | |
| Land improvements | (11,713) | | (386) | | (12,099) |
| Infrastructure | (1,844) | | (904) | | (2,748) |
| Buildings | (15,738,131) | | (539,988) | | (16,278,119) |
| Equipment | (21,546,524) | 139,705 | (1,526,286) | 491,561 | (22,441,544) |
| Intangibles | (48,191,809) | | (1,782,947) | 52 | (49,974,704) |
| Total accumulated depreciation/amortization | (85,490,021) | 139,705 | (3,850,511) | 491,613 | (88,709,214) |
| Net capital assets, depreciable/amortizable | 26,793,024 | (47,146) | (3,304,858) | (13,671) | 23,427,349 |
| Governmental capital assets, net | $ 27,638,125 | $ (47,146) | $ (1,506,750) | $ (13,671) | $ 26,070,558 |

(1) Includes transfers within the primary government, assets that were not previously reported, accounting errors and other changes.
(2) Fixed assets are reported on the State's Government-Wide financial statements but are not reported in the Governmental Funds.

| | Balance July 1, 2020 | Adjustments/ Transfers (1) | Additions | Deletions | Balance June 30, 2021 |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| Capital assets, depreciable/amortizable: | | | | | |
| Buildings | $ 492,796 | $ | $ | $ | $ 492,796 |
| Equipment | 2,793,070 | | 60,869 | | 2,853,939 |
| Total capital assets, depreciable/amortizable | 3,285,866 | | 60,869 | | 3,346,735 |
| Less accumulated depreciation/amortization for: | | | | | |
| Buildings | (492,796) | | | | (492,796) |
| Equipment | (1,010,631) | | (448,620) | | (1,459,251) |
| Total accumulated depreciation/amortization | (1,503,427) | | (448,620) | | (1,952,047) |
| Business-type activities capital assets, ne | $ 1,782,439 | $ | $ (387,751) | $ | $ 1,394,688 |

(1) Includes transfers within the primary government, assets that were not previously reported, accounting errors and other changes.

## (6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2021, are summarized as follows:

| | Balance June 30, 2020 | Additions | Reductions | Balance June 30, 2021 | Due within One Year | Due Greater than One Year |
|---|---|---|---|---|---|---|
| **Governmental Activities: (2)** | | | | | | |
| Compensated absences (1) | $ 8,916,045 | $ 7,911,907 | $ 7,524,444 | $ 9,303,508 | $ 1,439,252 | $ 7,864,256 |
| Net pension liability | 1,506,759,901 | 224,002,912 | | 1,730,762,813 | | 1,730,762,813 |
| Governmental activities total | $ 1,515,675,946 | $ 231,914,819 | $ 7,524,444 | $ 1,740,066,321 | $ 1,439,252 | $ 1,738,627,069 |

(1) The compensated absences liability will be liquidated by the applicable funds that account for the salaries and wages of the related employees.
(2) Long-term liabilities are reported on the State's Government Wide financial statements but are not reported in the Governmental Funds.

| | Balance June 30, 2020 | Additions | Reductions | Balance June 30, 2021 | Due within One Year | Due Greater Than One Year |
|---|---|---|---|---|---|---|
| **Business-type activities:** | | | | | | |
| Compensated absences (1) | $ 427,442 | $ 318,200 | $ 340,103 | $ 405,539 | $ 62,737 | $ 342,802 |
| Net pension liability | 4,646,795 | 670,524 | | 5,317,319 | | 5,317,319 |
| Total OPEB obligation | 4,541,663 | 75,086 | | 4,616,749 | 123,792 | 4,492,957 |
| activities total | $ 9,615,900 | $ 1,063,810 | $ 340,103 | $ 10,339,607 | $ 186,529 | $ 10,153,078 |

(1) The compensated absences liability will be liquidated by the applicable funds that account for the salaries and wages of the related employees.

## (7) Leases

### Operating Leases

The Department has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with all containing clauses indicating that their continuation is subject to continuing appropriation or funding by the Legislature. The lease payments are recorded as expenditures or expenses over the life of the lease.

Future minimum commitments under operating leases as of June 30, 2021, were as follows:

| | Governmental Activities | Business-type Activities |
|---|---|---|
| Year ending June 30: | | |
| 2022 | $ 5,628,444 | $ 98,119 |
| 2023 | 2,944,161 | 13,047 |
| 2024 | 2,027,578 | 1,684 |
| 2025 | 1,832,179 | 926 |
| 2026 | 2,289,894 | |
| 2027-2031 | 654,795 | |
| 2032-2036 | 160,680 | |
| Total minimum lease payments | $ 15,537,731 | $ 113,776 |
| Total rental expenditure/expense (2021) | $ 7,955,529 | $ 486,539 |

## (8) Fund Balance

### Governmental Fund

#### *Fund Balances – Restricted, Committed and Assigned*

The Department’s fund balances represent: (1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors and contributors; laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation; (2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; and (3) Assigned Purposes, which includes balances that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.

A summary of the nature and purpose of these fund balances by fund type at June 30, 2021, is as follows:

| | | Restricted Purposes | | Committed Purposes | | Assigned Purposes |
|---|---|---|---|---|---|---|
| Program Requirements | $ | 232,518,695 | $ | 1,453,781,637 | $ | |
| Disaster Assistance | | | | 5,580,461 | | |
| Child Support Enforcement | | | | 8,197,636 | | |
| State Administration of Justice | | | | 2,296,036 | | |
| Tobacco Settlement | | | | 1,198,132 | | |
| Other | | | | | | 2,799,389 |
| **Total** | $ | 232,518,695 | $ | 1,471,053,902 | $ | 2,799,389 |

The Department's Program Requirements include: (1) $220,802,987 in fund balance restricted by enabling legislation (Act 108 of 2003) to provide an adequate educational system; (2) $8,564,247 in fund balance restricted by "Coronavirus Aid, Relief, and Economic Security Act" or the "CARES Act," under Catalog of Federal Domestic Assistance (CFDA) number 21.019 to provide federal support for the COVID-19 pandemic. (3) $1,414,167,626 in fund balance committed by the Arkansas General Assembly through legislation for the Long Term Reserve Fund; (4) $11,611,438 in fund balance committed by the Arkansas General Assembly through legislation to fund the Commercial Driver License program; (5) $1,446,907 in fund balance committed by the Arkansas General Assembly through legislation to fund State grants for multi-jurisdictional drug crime task forces to investigate and prosecute drug crimes within the State; (6) $9,414,114 in fund balance committed by the Arkansas General Assembly through legislation to fund fire protection services and (7) $7,791,813 in fund balance committed by the Arkansas General Assembly through legislation to be used for distribution to the various qualified city, town or fire protection district police officers' pension and relief funds and firemen's pension funds.

## Proprietary Fund

### *Net Position – Net Investments in Capital Assets and Restricted*

Net position includes categories for net investments in capital assets and for restricted net position for several items including the Scholarship Shortfall Reserve, Retailer Fidelity Reserve, Retailer Bond Reserve, Multi-State Lottery Association (MUSL) deposits and for the Unclaimed Prizes Reserve. The net investment in capital assets category represents the purchases of capital assets recorded at cost, less accumulated depreciation. The restricted net position for the Scholarship Shortfall Reserve represents monies set aside to fund scholarship payment requests to the Arkansas Division of Higher Education (ADHE), if needed, due to a shortage of funds in the Education Trust Account. The Retailer Fidelity Reserve may be used to cover losses due to any retailer nonfeasance, malfeasance or misfeasance. The Retailer Bond Reserve is another reserve created for the recovery of potential losses from retailers, which replaces retailers having to purchase their own surety bond coverage. The MUSL deposits represent funds set aside to fund Powerball® and Mega Millions® prizes in the event of multiple grand prize winners. The amounts restricted for the Unclaimed Prizes Reserve are, by statute, only to be used to supplement future prizes, to maintain online game reserves at adequate levels or for special prize promotions. At June 30 of each fiscal year, the amount of the Unclaimed Prizes Reserve, less $1,000,000, are transferred to the Education Trust Account.

*Net Position – Unrestricted (Deficit)*

Act 606 of 2009 (Scholarship Lottery Act) Ark. Code Ann. §23-115-801 (a) (3) requires "The percentage of lottery proceeds determined by the OAL to be net proceeds shall equal an amount determined by the OAL to maximize net proceeds for scholarships." Ark. Code Ann. §23-115-103 (19) defines net proceeds to be lottery proceeds less operating expenses; the amount of fidelity fund revenue that exceeds $500,000; the un-depreciated amount of capital assets; and any accruals that will not result in cash outflow. Per Ark. Code Ann. §23-115-103 (14) "Lottery Proceeds" means all revenue derived from the sale of tickets or shares and all moneys derived from or in connection with the operation of a lottery, including without limitation fees, offsets, reimbursements, insurance proceeds, damages and liquidated damages collected or imposed by the OAL under this chapter. Also Ark. Code Ann. §23-115-801 Section (b)(1) requires "on or before the fifteenth day of each month, the OAL shall deposit the net proceeds from the lottery into one (1) or more trust accounts at one (1) or more financial institutions."

To meet these requirements, in October 2009, the OAL developed an accounting method for calculating net proceeds each month. Such method adjusts certain non-cash transactions for instant ticket revenue and for instant ticket prize expense to determine lottery proceeds on a modified cash basis. This method was accepted by the OAL for use in the calculation of net proceeds prescribed by Ark. Code Ann. §23-115-603 (a)(3) of the Scholarship Lottery Act and such method has been consistently applied for the calculation of net proceeds and the transfers of net proceeds, since the OAL's inception.

However, the calculation method utilized results in modified cash basis net proceeds each month which vary from GAAP net proceeds. Since the net proceeds for each month are transferred to a trust account by the 15th day of the next month, such transfers create a timing difference for the recognition of certain instant game prize expenses, which results in a debit balance (deficit) in Unrestricted Net Position. At June 30, 2021, the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of $(12,201,651).

In addition, the OAL's net OPEB liability at June 30, 2021, (see note 10) of $4,616,749, which consist of a current liability of $123,792 and long-term liability of $4,492,957, has not been funded to date. It will be funded on a pay-as-you-go basis as the benefits related to this liability are due and payable. This creates an additional debit balance (deficit) in Unrestricted Net Position at June 30, 2021, of $(4,616,749). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2021, was $(16,818,400).

## (9) Pensions

### Plan Description

The Department contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of APERS. The State is considered the employer and the Department is an agency of the State. APERS provides retirement, disability, death benefits and annual cost-of-living adjustments to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly certain legislative power. This power includes the enactment and amendment of benefit provisions of APERS as published in Chapters 2, 3 and 4 of Title 24 of the Arkansas Code Annotated. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Department's employees cannot be determined. Similarly, the net assets available for benefits of the Department's employees cannot be determined. APERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Arkansas Public Employees' Retirement Plan, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201-3704, by calling 1-501-682-7800, or on their website at http://www.apers.org/publications.

### Funding Policies

Contributory plan members are required to contribute 5% of their annual covered salary. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Department are established and may be amended by the Board of Trustees of APERS. The Department is required to contribute a percentage of annual covered payroll to this plan for all covered governmental and business type Department employees. For the fiscal year ended June 30, 2021, the Department's required contribution rate was 15.32%. The Office of the Arkansas Lottery's (OAL) annual required contribution amount and the percentage contributed are determined by the annual actuarial valuation as set forth in the Arkansas Code for APERS. Contributions to APERS from OAL were $568,216 for the year ended June 30, 2021.

### Pension Liability

#### *Business Type (OAL)*

For fiscal year ended June 30, 2021, the OAL reported pension expense of $824,048 and the OAL's net pension liability was $5,317,319. The State's Annual Comprehensive Financial Report contains the complete pension footnote and disclosures for the State's pension plan as required by GASB Statement 68.

## (10) Postemployment Benefits Other than Pensions

### Governmental Fund

The Department contributes to the Arkansas State Employee Health Insurance Plan, a single employer defined benefit OPEB plan administered by Transformation and Shared Services – Employee Benefits Division (TSS-EBD), on a monthly basis. The State Board of Finance 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 based on 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 amount made in accordance with GASB Statement No. 75. All related disclosures and supplementary information are also included in the State's Annual Comprehensive Financial Report.

### Business Type (OAL)

For the fiscal year ended June 30, 2021, the plan did not have any assets in a trust as defined by GASB 75. The OAL's annual OPEB cost and total liability for the fiscal year ended June 30, 2021, was $300,428 and $4,616,749 respectively. All related disclosures and supplementary information are also included in the State's Annual Comprehensive Financial Report.

## (11) Risk Management Program

### (a) Health and Life Plans

As required by Ark. Code Ann. § 21-5-405, the State Board of Finance (the Board) and the Director of Transformation and Shared Services – Employee Benefits Division (EBD) Administration take a risk management approach in designing the State's employee benefit programs. In addition, the Board ensures that the State's employee health benefit programs are maintained on an actuarially sound basis as determined by actuarial standards established by the Board.

#### Governmental Fund

***State Employee Health and Life Benefit Plan***

The Board provides the following employee benefits to State employees: a self-funded comprehensive major medical plan that includes prescription drug benefits, a health savings account (HSA), a fully-funded mental health parity and employee assistance program, and a fully-funded basic and supplemental group term life insurance. The State offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, State employees are given the option to participate in a deferred compensation plan.

The State offers a basic group term life insurance and accidental death and dismemberment policy to all active State employees. The State pays for these policies from the FICA trust fund. Employees are offered expanded basic group life term insurance at the employee's cost. The costs are based on a set rate without regard to the age of the employee. Employees are also offered supplemental coverage for employee and dependent coverage. Supplemental life insurance premiums are based upon age and amount of coverage.
Claim liabilities are reported in the State's government-wide financial statements but are not reported as liabilities or expenditures in the governmental funds.

**(b) Risk Management Division Office**

The State established the Risk Management Office (RISK) in accordance with State law for the purpose of analyzing and making recommendations as to cost-effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for replacement cost subject to a $2,500,000 aggregate retention paid from the Arkansas Multi-Agency Insurance Trust Fund (AMAIT), Act 1762 of 2003, and varying deductible amounts retained by the State agency entities from $2,500 up to $100,000 per occurrence. The total annual payout by AMAIT for the All-Other Perils coverage is capped at $2,500,000. Losses arising from earth movement are generally insured for the full amount of loss and subject to a deductible of 5% of the combined building and content total value at the location where the loss or damage occurs. Due to the market conditions, limited availability and excessive cost, total earth movement coverage is limited to $100,000,000 aggregate limit in Insurance Services Office (ISO) earthquake zones 2 and 3 and $200,000,000 for zones 4 and 5. The State has secured domestic and foreign terrorism insurance coverage. Certain State agencies have chosen not to purchase commercial insurance on certain buildings and, as such, losses for these buildings are recorded as expenditures in the General Fund when incurred. Flood coverage is provided with varying limits and deductibles according to the various flood zones. Aggregate limits vary from $30,000,000 in a Special Flood Hazard Zone A, with a $1,000,000 deductible per occurrence, per location, per agency, up to $100,000,000 in Zone X, with a $100,000 deductible per occurrence, per agency. Both earthquake and flood coverage limits are annual aggregate total maximum limits for the State.

The State does not purchase commercial general liability insurance coverage for claims arising from third party losses on State property as the State relies on sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission. Act 1188 of 2015 amended the AMAIT to allow for cyber data security insurance. Cyber data liability insurance coverage for all participating State agencies became effective on August 14, 2018.

RISK provides staff for the Arkansas Governmental Bonding Board in the administration of the State of Arkansas Self-Insured Fidelity Bond Program in accordance with Act 728 of 1987. The Bond Program provides fidelity bond coverage for actual losses through fraudulent and dishonest acts caused by employees or officials of all participating governments: State, county, municipal and school district entities. The bond policy limit is $300,000 per occurrence, in accordance with Ark Code Ann. § 21-2-704(b)(1).

For those State vehicles covered by commercial business auto insurance, each participating agency determines which, if any, vehicles to insure for physical damage and is subject to a per occurrence deductible of $500 comprehensive and $1,000 collision coverage. Also, such commercial business auto insurance generally provides coverage against liability losses up to $250,000 per occurrence in-state and $5,000,000 per occurrence out-of-state. The participating State agency does not have a per occurrence deductible on third-party liability claims. Auto liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

### (c) Public Employee Claims Division of the Arkansas Insurance Department

The State's Workers' Compensation Program (the Program) was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component unit are included in the Program. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, and disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount based on past claims experience. This amount is determined by the Department of Finance and Administration. Due to legislation ending new claims to the Death and Permanent Total Disability Trust Fund at June 30, 2019, it is anticipated that there will be increases in the claim liability for the State. It is anticipated that the increases will be small initially, increase each year and eventually result in a cost to the Program of approximately $1,200,000 per year by the year 2034. The Department's contribution for the year ended June 30, 2021, totaled $91,772.

Claim liabilities are reported in the State's government-wide financial statements but are not reported as liabilities or expenditures in the governmental funds.

### (d) Special Funds Division of the Arkansas Workers' Compensation Commission

The State provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by State law and is known as the Death and Permanent Total Disability Trust Fund (Disability Trust Fund). The second such plan was created by State law and is known as the Second Injury Trust Fund.

### *Death and Permanent Total Disability Trust Fund*

Initiated Act 4 of 1948, as amended, established the workers' compensation laws to provide for the timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers' compensation insurance or to pay benefits directly as a self-insurer. Generally, employers are liable for medical services and supplies for injured employees. Ark. Code Ann. § 11-9-502 provides for the first $75,000 of weekly benefits (the indemnity threshold) for death or permanent total disability to be paid by the employer or its insurance carrier. Act 1599 of 2007 amended Ark. Code Ann. § 11-9-502 to move the indemnity threshold up to 325 times the maximum total disability rate. Accordingly, the Disability Trust Fund was established. The taxation rate is determined by the Workers' Compensation Commission in accordance with Ark. Code Ann. § 11-9-306, which limits the tax rate to 3% of written manual premiums of workers' compensation insurance written on all risks within the State. Upon the final payment of the liabilities of the Death and Permanent Total Disability Trust Fund under Ark. Code Ann. § 11-9-502, the current maximum tax rate of 3% will change to 1.5%. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance. Act 5 of the Third Extraordinary Session of 2016 provides that no claims shall be made to the Death and Permanent Total Disability Trust Fund after June 30, 2019.

Claim liabilities are reported in the State's government-wide financial statements but are not reported as liabilities or expenditures in the governmental funds.

### *Second Injury Trust Fund*

Initiated Act 4 of 1948, as amended, established the workers' compensation laws to provide for the timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers' compensation insurance or to pay benefits directly as a self-insurer. Ark. Code Ann. § 11-9-525 provides that an employer employing a disabled person will not, in the event the employee suffers an injury on the job, be held liable for a greater disability or impairment than actually occurred while the employee was employed. The Second Injury Fund pays the injured worker the difference between the employer's liability and the balance of his or her disability or impairment that result from all disabilities or impairments combined. Accordingly, the Workers' Compensation Commission, in accordance with Ark. Code Ann. § 11-9-306, limits the tax rate to 3% of written manual premiums of workers' compensation insurance written on all risks within the State. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance. Act 1415 of 2007 amended Ark. Code Ann. § 11-9-525 by prohibiting claims for second injuries being made under the provisions of Ark. Code Ann. § 11-9-525 after January 1, 2008. In effect, this Act has eliminated the Second Injury Fund with regard to claims made after December 31, 2007.

Claim liabilities are reported in the State's government-wide financial statements but are not reported as liabilities or expenditures in the governmental funds.

## 12) Commitments and Contingencies

### Governmental Activities

#### *Litigation*

The Department and its employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation is primarily comprised of claims against the Department challenging collection or assessment of sales and use tax where the plaintiffs allege an exemption under existing law. At June 30, 2021, the department did not have any estimated incurred claims.

#### *Federal Grants*

The Department receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulation, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the federal government or their designees. At June 30, 2021, the amount of expenditures which may be disallowed by the grantor cannot be determined, although the Department expects such amounts, if any, to be immaterial.

#### *Construction and Other Commitments*

At June 30, 2021, the Department had commitments of $1,250,376 for professional service contracts.

### Proprietary Activities

### Office of the Arkansas Lottery

#### *Litigation*

At June 30, 2021, The Department's Office of the Arkansas Lottery (OAL) had no pending lawsuits or claims to which the OAL is a party.

*Construction and other commitments*

OAL contracts with vendors for its online lottery game services, instant ticket lottery game services and gaming system. These services are incurred as a percentage of sales and as such, future obligations cannot be easily determined. OAL has a multi-year contract with one vendor that expires in fiscal year 2027, and a multi-year contract with a second vendor that expires fiscal year 2027. Total fees paid on these contracts for the fiscal year ended June 30, 2021, were $34,015,230.

During the fiscal year ended June 30, 2016, the OAL executed a contract with a third vendor to provide a business plan and other consultancy services that expired on June 30, 2020, with two optional extensions of 12 months each, which automatically renew unless either party informs the other party in writing. On July 1, 2020 the OAL exercised the option to extend the contract for a period of one year and amend the agreement to reflect a pricing change. The base compensation cost is mutually agreed upon each year. Incentive compensation costs are incurred as a percentage of operating income and as such, future obligations cannot be easily determined. In fiscal year 2021, $487,494 base compensation costs were paid by OAL. The incentive compensation paid or accrued for fiscal year 2021 totaled $4,192,194.

## (13) Business Incentives

### (a) Create Rebate Program

The Create Rebate Program is authorized by the Consolidated Incentives Act of 2003 (Ark. Code Ann. §§ 15-4-2701 – 15-4-2714). Financial incentive agreements are offered to non-retail, for-profit businesses in highly competitive circumstances at the discretion of the director of the Arkansas Economic Development Commission. The agreements can be offered for a period of up to 10 years. Cash payments are based on a company’s annual payroll for new, full-time, permanent employees. To be eligible for payment, a company is required to maintain a minimum payroll of $2,000,000 annually for new, full-time, permanent employees and file a claim with the Department of Finance and Administration (DFA). No claims may be filed until the minimum annual payroll of $2,000,000 is met. The threshold must be met within 24 months of inception of the agreement. The State has accrued liabilities in the approximate amount of $268,199,573 for the Create Rebate business incentive.

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

| | 2021 | 2020 |
|---|---|---|
| Create Rebate business incentives, beginning of year | $ 250,744,548 | $ 226,211,489 |
| Incurred Create Rebate business incentives, net of allowance | 30,723,370 | 42,366,845 |
| Create Rebate business incentives payments/dismissals | (13,268,345) | (17,833,786) |
| Create Rebate business incentives, end of year | $ 268,199,573 | $ 250,744,548 |
| Current Create Rebate business incentives | $ 13,612,963 | $ 12,889,191 |
| Noncurrent Create Rebate business incentives | 254,586,610 | 237,855,357 |

Claim liabilities are reported in the State’s Government-Wide Financial Statements but are not reported as liabilities or expenditures in the governmental funds.

### (b) Tax Back Program

The Tax Back Program is authorized under Ark. Code Ann. § 15-4-2706(d). The program provides sales and use tax refunds on the purchase of building materials, machinery and equipment to qualifying businesses that create new jobs as a result of construction, expansion or facility modernization projects in Arkansas. All claims for refunds must be filed with the Revenue Division of DFA. within three years from the date of purchase. The State has accrued liabilities of $2,654,763 for the Tax Back Business Incentive. For more information on the Tax Back program, refer to Note 14.

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

| | 2021 | 2020 |
|---|---|---|
| Tax Back business incentives, beginning of year | $ 2,175,802 | $ 3,035,676 |
| Incurred Tax Back business incentives, net of allowance | 2,507,161 | 2,327,479 |
| Tax Back business incentives payments/dismissals | (2,028,200) | (3,187,353) |
| Tax Back business incentives, end of year | $ 2,654,763 | $ 2,175,802 |
| Current Tax Back business incentives | $ 2,654,763 | $ 2,175,802 |
| Noncurrent Tax Back business incentives | 0 | 0 |

Claim liabilities are reported in the State's Government-Wide Financial Statements, but are not reported as liabilities or expenditures in the governmental funds.

## (14) Tax Abatements

As of June 30, 2021, the State provides tax abatements through 12 programs. These programs provide incentives in the form of reduced taxes for the purposes of business development and job creation, housing development, tourism development and other programs.

### (a) Advantage Arkansas Program

The Advantage Arkansas Program provides income tax abatements to encourage economic development through job creation. The program is established under Ark. Code Ann. § 15-4-2705. The abatements are provided through an income tax credit equal to a percentage of the payroll of new, full-time permanent employees of the business, which is based on the county in which the new employees are located. The income tax credits are obtained through application by the business to the Arkansas Economic Development Commission (AEDC) prior to commencement of activities that will lead to job creation. The proposed average hourly wage shall be equal to or greater than the lowest county average hourly wage as calculated by AEDC based on the most recent calendar year data published by the Division of Workforce Services. After receiving an approved financial incentive agreement from AEDC, the business shall certify the payroll at the end of each tax year during the agreement to the Revenue Division of the Department of Finance and Administration (Revenue Division). Upon verification of the reported payroll amounts, the Revenue Division shall authorize the appropriate income tax credit. The tax credits authorized may offset 50% of the business's tax liability in any one year. Any unused credits may be carried forward up to nine years after year first earned or until exhausted, whichever occurs first.

If the business fails to meet the payroll threshold within two years after signing the financial incentive agreement, unless an extension is granted, the business must repay all benefits previously received under this program. No other commitments were made by the State as part of the agreements.

### (b) ArkPlus Program

The ArkPlus Program provides income tax and sales and use tax abatements to encourage economic development through job creation and capital investments. The program is established under Ark. Code Ann. § 15-4-2706(b). The tax abatements are provided through income tax credits and sales and use tax credits. A business must apply for the tax credits through the AEDC prior to starting the project.

- A business other than a technology-based entity is eligible for a tax abatement through an income tax credit equal to 10% of the total investment in land, buildings, equipment and costs related to licensing and protection of intellectual property. Eligibility for the income tax credit is based upon a minimum investment and minimum annual payroll. The investment thresholds must be reached within four years of the date the financial incentive agreement is signed, except for certain lease payments. The eligible business shall certify eligible project costs annually at the end of each tax year to the Revenue Division. Upon verification of eligible costs, the Revenue Division shall authorize the income tax credit. The amount of income tax credit taken each tax year cannot exceed 50% of the business's income tax liability resulting from the project or facility. Unused credits may be carried forward up to nine years after the year earned.

- A technology-based entity may receive a tax abatement by electing to receive either an income tax credit or a sales and use tax credit equal to a percentage of the investment based upon the amount to be invested. The entity must elect either the income tax credit or the sales and use tax credit at time of application. To be eligible, the entity must create a new payroll that meets minimums in amount and average hourly wage. The tax credit is a percentage of the project cost, ranging from 2% to 8%, based upon the project cost estimate at the time the financial incentive agreement is signed. All investments must be made within four years of the date of the signed agreement. After receiving an approved financial incentive agreement from AEDC, the business shall certify eligible project costs at the end of each tax year during the agreement to the Revenue Division. The tax credits authorized may offset a percentage the entity's tax liability based on the average hourly wage paid. Any unused credits may be carried forward up to nine years after the year first earned.

No other commitments were made by the State as part of these agreements. Because taxes are abated after eligible costs are incurred and verified, there are no recapture provisions.

### (c) InvestArk Program

The InvestArk Program provides for abatement of sales and use taxes to encourage economic development through retention of current Arkansas businesses. The program is authorized under Ark. Code Ann. § 15-4-2706(c). To be eligible, a business must have been in continuous operation in the State for at least two years, hold a direct-pay sales and use tax permit from the Revenue Division prior to submitting an application and propose an investment of at least $5,000,000. An eligible business must apply for this program prior to the start of eligible activities and file the endorsements with the application. Upon approval, the AEDC shall certify the project to the Revenue Division. At the end of each calendar year, the business shall certify the amount of project expenditures to the Revenue Division. The amount of the sales and use tax credit is five-tenths of one percent (0.5%) above the State sales and use tax rate at the time the financial incentive agreement is signed with the AEDC. Credits taken cannot exceed 50% of the direct pay sales and use tax liability for taxable purchases. Any unused credits can be carried forward up to five years after first earned. No other commitments were made by the State under this program. Because taxes are abated after qualified expenditures are made, no recapture provisions are provided.

### (d) Tax Back Program

The Tax Back Program provides for abatement of sales and use taxes to encourage economic development through job creation. The program is authorized under Ark. Code Ann. § 15-4-2706(d). To be eligible, a business must be endorsed by the governing authority of the municipality, county or both in whose jurisdiction the business will be located; propose a minimum investment of $100,000; and sign a job creation financial incentive agreement under Ark. Code Ann. § 15-4-2705 or Ark. Code Ann. § 15-4-2707. An eligible business must apply for this program prior to the start of eligible activities. A refund of sales and use taxes paid on eligible purchases shall be authorized by the Revenue Division after verification. All claims for refunds must be filed with the Revenue Division within three years from the date of purchase. No refunds are made for sales and use taxes dedicated to the Educational Adequacy Fund and the Conservation Tax Fund. Because taxes are abated after qualified expenditures are made, no recapture provisions are provided. No other commitments were made by the State under this program.

### (e) In-House Research and Development Program

The In-House Research and Development Program provides for abatement of income taxes to encourage economic development through research activities. The program is authorized under Ark. Code Ann. § 15-4-2708(a). Eligible businesses must apply with the AEDC prior to the start of research activities. The income tax credit is equal to 20% of qualified expenditures and may be used to offset 100% of an eligible business' annual income tax liability. Unused credits may be carried forward up to nine years. A financial incentive agreement under this program may not exceed five years. Because taxes are abated after qualified expenditures are made, no recapture provisions are provided. No other commitments were made by the State under this program.

### (f) Targeted Research Program

The Targeted Research Program provides for abatement of taxes to encourage economic development through research activities of targeted businesses or in areas of strategic value. The program is authorized under Ark. Code Ann. § 15-4-2708(b) and (c). Targeted businesses must be in one of six business sectors as determined by the AEDC. Areas of strategic value are fields having long-term economic or commercial value to the State and identified in the research and development plan approved by the executive director of the AEDC. Eligible businesses must apply with the AEDC prior to the start of research activities. The income tax credit is equal to 33% of qualified expenditures and may be used to offset 100% of an eligible business's annual income tax liability. Targeted businesses may sell unused credits as authorized by Ark. Code Ann. § 15-4-2709. Unused credits provided for research in areas of strategic value may be carried forward up to nine years. The maximum amount of credits awarded to an eligible business for research in areas of strategic value is $50,000. A financial incentive agreement under this program may not exceed five years. Because taxes are abated after qualified expenditures are made, no recapture provisions are provided. No other commitments were made by the State under this program.

### (g) Targeted Business Payroll Program

The Targeted Business Payroll Program provides for abatement of income taxes to encourage the development of jobs that pay significantly more than the average hourly wage of the county in which the business is located or the State average hourly wage, if less. The program is authorized under Ark. Code Ann. § 15-4-2709. To be eligible, a business must be identified by the AEDC as being in a business sector targeted for growth under Ark. Code Ann. § 15-4-2703(43). An eligible business must apply for this program prior to the start of eligible activities. The eligible business must meet annual payroll requirements as well as average hourly wage requirements. The term of the financial incentive agreement cannot exceed five years. An income tax credit is earned equal to 10% of the targeted business's annual payroll but not to exceed $100,000 in any one year. Any unused credits may be carried forward up to nine years after the year the credit is earned. The targeted business may apply to the AEDC for permission to sell unused credits. Because taxes are abated after qualified expenditures are made, no recapture provisions are provided. No other commitments were made by the State under this program. No income taxes were abated under this program for the fiscal year ended June 30, 2021.

### (h) Tourism Development Program

The Tourism Development Program provides for abatement of income taxes and sales and use taxes to encourage the development of tourism attractions within the State. The program is authorized by Ark. Code Ann. §§ 15-11-501 – 15-11-511. To be eligible, the business must agree to make a minimum investment in a tourism attraction project and have a marketing plan that targets at least 25% of its visitors from out-of-state. The business must apply for the program with the AEDC prior to the start of eligible activities. The eligible project must be completed within two years, unless an extension is granted. The term of the financial incentive agreement shall not exceed 10 years. Tax abatements are made as follows:

- To receive a sales and use tax credit, the company must certify to the Secretary of the Department of Finance and Administration (DFA) that the minimum investment has been made in the project. The sales tax credit approved by the DFA shall be 15% or 25% of the approved costs, depending on the location of the project. Additional sales and use tax credits may be awarded as additional approved costs are incurred. However, no credits shall be awarded for costs incurred more than two years after the financial incentive agreement is signed, unless an extension is granted. The credits may be used to offset 100% of the increased State sales tax liability in the first year approved. Unused credits may be carried forward up to nine years or the end of the financial incentive agreement, whichever occurs first.

- To receive an income tax credit the tourism attraction project must meet the eligibility requirements in Ark. Code Ann. § 15-11-503(13)(A). The approved company shall certify its payroll to the Revenue Division. The Revenue Division can then authorize an income tax credit equal to 4% of the certified payroll of new full-time permanent employees of the approved tourism attraction.

Because taxes are abated after qualified expenditures are made, no recapture provisions are provided. No other commitments were made by the State under this program.

### (i) Water Resource Conservation and Development Program

The Water Resource Conservation and Development Program provides for abatement of income taxes to encourage investment in projects that increase the use of surface water and reduce agricultural irrigation water use. The program is authorized under Ark. Code Ann. §§ 26-51-1001 – 26-51-1014. To be eligible, an entity must agree to undertake a project that meets standards established by the Arkansas Natural Resource Commission (ANRC). An eligible entity must apply for this program prior to the start of eligible activities. The project is required to be completed within three years and be maintained for 10 years after completion. Taxes are abated using an income tax credit equal to a percentage of the estimated cost of the project, up to a set maximum, based on the type of project. The percentage and maximum depend on the type of project proposed. The income tax credits can begin to be taken in the year the project is started. Credits taken are limited to the entity's income tax liability for the tax year or a maximum amount, depending on the type of project, whichever is less. Any unused credits may be carried forward up to a set number of years depending on the type of project. If the project is not completed within three years, all income tax credits used shall be repaid. If the project is not maintained for 10 years after completion, a pro rata share of the income tax credits used shall be recaptured based on the number of years since completion. The total amount of tax credits that can be taken by all awarded entities cannot cumulatively exceed $10,000,000. In the calendar year when the cumulative amount of credits taken reaches $10,000,000, any remaining unused credits shall expire as of December 31 of that year. No other commitments were made by the State under this program.

### (j) Wetland and Riparian Zone Program

The Wetland and Riparian Zone Program provides for abatement of income taxes to encourage landowners to restore and enhance existing wetlands and riparian zones or create new wetlands and riparian zones. The program is authorized under Ark. Code Ann. §§ 26-51-1501 – 26-51-1510. To be eligible, the landowner must agree to undertake a project that meets standards established by the ANRC. An eligible entity must apply for this program prior to the start of eligible activities. The project is required to be completed within three years and be maintained for 10 years after completion. Taxes are abated using an income tax credit equal to project costs up to a maximum of $50,000. If the project is not completed within three years, all income tax credits used shall be repaid. If the project is not maintained for 10 years after completion, a pro rata share of the income tax credits used shall be recaptured, based on the number of years since completion. In the calendar year when the cumulative amount of credits taken by all landowners awarded credits under this program reaches $500,000, any remaining unused credits shall expire as of December 31 of that year. No other commitments were made by the State under this program.

### (k) Low Income Housing Program

The Low Income Housing Program provides for abatement of income taxes to encourage the development of housing for individuals and families with low income. The program is authorized under Ark. Code Ann. §§ 26-51-1701 – 26-51-1705. To be eligible, the taxpayer must own an interest in a qualified project in Arkansas, be eligible for the federal low income housing tax credit and be approved by the Arkansas Development Finance Authority. An eligible entity must apply for this program prior to the start of eligible activities. Taxes are abated using an income tax credit equal to 20% of the federal low income housing tax credit approved. The amount of credit taken in any one tax year cannot exceed the State income taxes due from the taxpayer. Any unused credits may be carried forward up to five years. If a portion of the federal income tax credit is required to be recaptured, the taxpayer must repay a portion of the related State income tax credit. The maximum amount of State income tax credits that can be awarded under this program each year cannot exceed $250,000. No other commitments were made by the State under this program.

### (l) Major Maintenance and Improvement Program

The Major Maintenance and Improvement Program provides for abatement of sales and use taxes to assist manufacturing and processing facilities in remaining competitive and preserving jobs. The program is authorized under Ark. Code Ann. § 15-4-3501. To be eligible, a business enters into a financial incentive agreement with the AEDC. An eligible business must agree to invest at least $3,000,000 into the project. A refund of 100% of sales and use taxes paid on eligible purchases and expenditures shall be authorized by the DFA after verification. All claims for refunds must be filed with the Revenue Division before July 1, 2022. Because taxes are abated after qualified expenditures are made, no recapture provisions are provided. No other commitments were made by the State under this program.

A summary of the taxes abated by tax abatement program for fiscal year ended June 30, 2021, is as follows:

| Tax Abatement Program | | 2021 |
|---|---|---|
| Income Tax Abatements | | |
| ArkPlus Program | $ | 6,462,131 |
| In-House Research and Development Program | | 2,883,017 |
| Advantage Arkansas Program | | 750,875 |
| Water Resource Conservation and Development Program | | 374,800 |
| Low Income Housing Program | | 458,404 |
| Targeted Research Program | | 1,048,571 |
| Wetland and Riparian Zone Program | | 227,863 |
| | | |
| Sales and Use Tax Abatements | | |
| InvestArk Program | $ | 28,098,187 |
| Tourism Development Program | | 575,857 |
| Major Maintenance and Improvement Program | | 3,495,772 |
| Tax Back Program | | 2,507,162 |

Claim liabilities are reported in the State's Government-Wide Financial Statements, but are not reported as liabilities or expenditures in the governmental funds.

## (15) Joint Ventures

### *Office of the Arkansas Lottery*

GASB Statement No.14, The Financial Reporting Entity, as amended, defines a joint venture as a legal entity or other organization that results from a contractual arrangement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. During the fiscal year ended June 30, 2021, the Office of Arkansas Lottery (OAL) was an active participant in several joint venture arrangements with the Multi-State Lottery Association (MUSL).

### *Multi-State Lottery Association*

In July 2009, the OAL joined the Multi-State Lottery Association (MUSL), which is comprised of a group of U.S. lotteries that combine jointly to sell online Powerball® and Mega Millions® lottery tickets. On January 27, 2015, MUSL added the Lucky for Life® online game to be available to the member lotteries for the joint sales of that game, in which the OAL elected to participate. Each lottery participating in Lucky for Life® ticket sales must annually subject the transactions, accounts and processes related to Lucky for Life® to a test of agreed upon procedures by an independent auditor in its state. The chief executive officer of each member lottery serves on the MUSL board of directors. MUSL is audited annually by a separate independent audit firm.

As a member of MUSL, the OAL is required to contribute to various prize reserve funds for Powerball® and Mega Millions® which are maintained by MUSL. The MUSL prize reserve funds serve as a contingency reserve to protect MUSL and its member state lotteries from unforeseen prize payment liabilities. MUSL periodically reallocates the prize reserve funds among the member state lotteries based on relative Powerball® and Mega Millions® sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), less any portion of unanticipated prize claims that may have been paid from the fund, would be returned to the OAL if it were to ever leave MUSL. As of June 30, 2021, the OAL had reserve fund deposits with MUSL of $2,130,976. MUSL does not maintain prize reserve funds for Lucky for Life®. Instead, each participating lottery is responsible for maintaining their own prize reserve funds for potential Lucky for Life® prize payments. OAL Lucky for Life® reserve balance at June 30, 2021, was $309,012.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, Attn: Bret Toyne, Executive Director or Shannon Underwood, Director of Finance, 8101 Birchwood Court, Suite R, Johnston, Iowa 50131.

The OAL's portion of the MUSL's games for the fiscal year ended June 30, 2021, is summarized in the table below:

| | Operating Revenues | Prizes |
|---|---|---|
| Powerball® | $ 26,748,835 | $ 12,988,468 |
| Mega Millions® | 23,809,304 | 11,642,074 |
| Lucky for Life® | 3,391,638 | 2,097,076 |

## (16) Subsequent Events

### *Primary Government*

### Governmental Activities

On March 11, 2021, the Federal government enacted the American Rescue Plan Act (ARPA). ARPA provided funding for several economic assistance programs to address the impact of the COVID-19 outbreak. ARPA established the State and Local Fiscal Recovery Fund (SLFRF) to aid states and other local and tribal governments with necessary expenditures incurred to address the public health emergency. The assistance must be applied to allowable expenditures incurred in the period beginning March 3, 2021, and ending December 31, 2024. In June 2021, the State of Arkansas received the first of two equal distributions of SLFRF assistance in the amount of $786,560,790, of the $1,600,000,000 total allocated to the State of Arkansas. Any SLFRF funds not expended by December 31, 2024, must be returned to the U. S. Treasury. Because of the requirement to return unexpended SLFRF funds, the State accrued a liability of $786,560,790 for SLFRF funds unexpended as of June 30, 2021. During fiscal year 2022, the State of Arkansas received the second distribution of $786,560,790 and expended $639,856,561 of SLFRF funding resulting in a remaining liability of $933,265,019 at June 30, 2022.

In March 2020, the Federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act provided funding for several economic assistance programs to address the impact of the COVID-19 outbreak. The CARES Act established the Coronavirus Relief Fund (CRF) to aid states and other local and tribal governments with necessary expenditures incurred to address the public health emergency. The assistance had to be applied to allowable expenditures incurred in the period beginning March 1, 2020, and ending December 30, 2020. The State of Arkansas received CRF assistance in the amount of $1,250,000,000. In December 2020, the Federal government enacted the Consolidated Appropriations Act, 2021, that included an extension of the time frame to expend CRF funds through December 31, 2021. Any CRF funds not expended by December 31, 2021, must be returned to the U. S. Treasury. Because of the requirement to return unexpended CRF funds, the State accrued a liability of $67,583,409 for CRF funds unexpended as of June 30, 2021. By June 30, 2022, the State of Arkansas expended the remaining CRF funds reducing the liability to zero.

In December 2021, following a special legislative session, the Governor signed identical Acts that cut individual income tax rates beginning in January 2022 and corporate income tax rates beginning in January 2023. These cuts will continue to increase thru 2025; however, certain targets must be achieved for the tax cuts in 2024 and 2025 to take effect. These tax cuts are expected to reduce the State's general revenue by $135,250,000 in FY2022, $307,400,000 in FY2023, $383,200,000 in FY2024, $459,000,000 in FY2025, and $497,900,000 in FY2026.

***Business-Type Activities***

**Arkansas Department of Finance and Administration – Office of Arkansas Lottery (OAL)**

On September 7, 2021, at the request of the Arkansas Division of Higher Education (ADHE), a payment of $38,000,000 was made from the Education Trust Account to ADHE. On March 2, 2022, at the request of ADHE, a payment of $33,000,000 was made from the Education Trust Account to ADHE.

# REQUIRED SUPPLEMENTARY INFORMATION

## Required Supplementary Information
## Schedule of Expenditures – Budget and Actual
## General Fund
## June 30, 2021

| | Budgeted amounts | | Actual | Variance with final budget - positive |
|---|---|---|---|---|
| | Original | Final | amounts | (negative) |
| Expenditures: * | | | | |
| Current: | | | | |
| General | $ 5,587,090,338 | $ 2,135,211,524 | $ 1,372,281,461 | $ 762,930,063 |
| Capital Outlay | 800,000 | 4,300,141 | 1,136,249 | 3,163,892 |
| Total Expenditures | $ 5,587,890,338 | $ 2,139,511,665 | $ 1,373,417,710 | $ 766,093,955 |

* Expenditures are appropriated, amounts blocked determined available budget. Blocking is revised quarterly to match the forecast revisions. Expenditures may not exceed the lesser of budget or funds available.

See Notes to Schedule of Expenditures - Budget and Actual on next page.

**Required Supplementary Information**
**Notes to Schedule of Expenditures – Budget and Actual**
**General Fund**
**For the Year Ended June 30, 2021**

### (a) Budgetary Basis of Accounting

The Department's budget is adopted in accordance with a statutory cash basis of accounting, which is not in accordance with Generally Accepted Accounting Principles (GAAP). Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration (DFA). Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multi-year projects.

### (b) Budgetary Basis Reporting – Budgetary Process

State finance law requires that a balanced line item expenditure budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly. The General Assembly, which has full authority to amend the budget, adopts a line item expenditure budget by appropriating monies in annual appropriation acts. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override.

The original appropriation may be adjusted by several items subsequent to the appropriation act. The adjustment items may be supplemental appropriations or subsequent legislative acts, revisions to the forecast of available resources, restrictions on spending by Executive Order and carryforward provisions.

The Department does not adopt a revenue budget but does monitor the available resources and forecast of available resources and makes appropriate revisions to the line item expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of resources.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the Stabilization Law) to provide an allotment process of funding line item expenditure appropriations in order to comply with the State law prohibiting deficit spending. The Governor may restrict spending to a level below appropriation amounts. The Department uses specific funds (i.e., general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all general revenue receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department and judges), their staffs and the Department. The balance, net of income tax refunds, court settlement arrangements, etc., is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by the Department, and 1.5% of all special revenues collected by other agencies are first distributed to support the State's elected officials, their staffs and the Department. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with the General Revenue Allotment Account funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly established three levels of priority for general revenue spending levels: "A," "A1" and "B." Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies' funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Most of the Department's appropriations are noncontinuing accounts that lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by the Department, which utilizes quarterly allotments that restrict spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year. The funded portion of the quarterly allotment is then made available for expenditure and the remainder is blocked.

The Department has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation classification basis. Appropriation classifications are subdivisions of appropriations, which define the purposes for which the appropriation can be used and restrict the amount of expenditures for the various classifications to amounts established in the appropriation acts. Appropriation classifications may include regular salaries, extra help, overtime, maintenance and general operation, personal services matching, conference and travel expenses, professional fees, capital outlay, data processing, grants assistance and special aid, construction and permanent improvements and other special classifications. Budgetary control is maintained through the Arkansas Administrative Statewide Information System (AASIS). AASIS ensures that expenditures are not processed if they exceed the appropriation classification total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, Arkansas law authorizes the Department to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

Budget is controlled at the appropriation line item (commitment item), which is the legal level of budgetary control. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure. The separately issued Budget Compliance Report tracks budget compliance at the funds center and commitment item level and can be obtained by contacting:

> The Department of Finance and Administration
> Office of Accounting
> 1509 West Seventh Street
> Little Rock, AR 72201

The following is a reconciliation of GAAP basis expenditures presented in the financial statements to the statutory cash basis expenditures of the General Fund:

Reconciliation for Notes to Schedule of Expenditures:

| | | |
|---|---|---|
| Total GAAP basis expenditures - General Fund | $ | 526,038,765 |
| Less non appropriated expenditures | | (16,925,025) |
| Plus expenses eliminated or reclassed as transfers for reporting purposes | | 10,118,175 |
| Basis of accounting differences | | 854,185,795 |
| Total statutory basis expenditure - General Fund | $ | 1,373,417,710 |