Arkansas

Department of Finance and Administration

Annual Financial Report

June 30, 2022

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

Department of Finance and Administration

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022
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Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022; the respective changes in financial position; and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As indicated above, the financial statements of the Department of Finance and Administration are intended to present the financial position; the changes in financial position; and, where applicable, cash flows of only that portion 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, 2022; 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.

The Agency adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, listed in the accompanying table of contents, be presented to supplement the departmental financial statements. Such information is the responsibility of management and, 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 opinions on the departmental financial statements are 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 15, 2023, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of the testing, and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

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

Little Rock, Arkansas
August 15, 2023
SAC990622

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

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

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

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, 2022, 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 15, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2022-1, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance 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 item 2022-1.

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SCHEDULE OF FINDINGS AND RESPONSES

2022-1 A review of salary adjustments in fiscal year 2022 revealed a part-time employee's hourly rate was erroneously raised from $12.52 to $25.03. As a result, the employee was overpaid $2,194 over a five-month period, until DFA discovered the error and corrected the hourly rate to $14.92. The employee worked on a seasonal/temporary basis, and employment was terminated in April 2022.

In addition, the Agency failed to report the loss of public funds to Arkansas Legislative Audit as required by Ark. Code Ann. § 25-1-124.

We recommend Agency management strengthen internal controls to ensure wage increases are properly supported and sufficiently reviewed. Furthermore, the Agency should report any loss of public funds greater than $1,000 to Arkansas Legislative Audit within five business days upon discovery of the loss, as required by Ark. Code Ann. § 25-1-124.

Management Response: We agree with Arkansas Legislative Audit's recommendation. Department of Finance and Administration will continue to work to assure that wage increase are supported and sufficiently reviewed. Furthermore, we will adhere to Ark. Code Ann. § 25-1-124 for reporting losses of public funds.

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 15, 2023

BASIC FINANCIAL STATEMENTS

Balance Sheet
Governmental Fund
June 30, 2022

		General Fund
Assets		
Cash and cash equivalents	$	4,812,827,162
Receivables, net:		
Accounts		2,060,405
Taxes		507,705,926
Loans		297,158
Due from other funds		50,536
Due from other State agencies		46,778,192
Advances to other State agencies		11,098,000
Due from other governments		14,795,048
Prepaid items		2,407,977
Inventories		880,509
Total assets	$	5,398,900,913
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	$	2,539,081
Accrued and other current liabilities		9,867,992
Unearned revenue		6,260,696
Income tax refunds payable		349,957,593
Due to other governments		934,742,686
Due to other State agencies		16,229,885
Loans from other State agencies		1,000,000
Total liabilities		1,320,597,933
Deferred inflows of resources:		
Related to revenues		85,685,056
Total liabilities and deferred inflows of resources		1,406,282,989
Fund balance:		
Nonspendable		
Prepaid items		2,407,977
Inventories		880,509
Loans		297,158
Restricted		377,204,644
Committed		2,876,242,109
Assigned		1,247,273
Unassigned		734,338,254
Total fund balance		3,992,617,924
Total liabilities, deferred inflows of resources, and fund balance	$	5,398,900,913

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, 2022

	General Fund
Revenues:	
Taxes:	
Personal and corporate income	$ 4,490,528,137
Consumers sales and use	3,801,924,559
Gas and motor carrier	1,639,592
Other	818,802,678
Intergovernmental	664,485,335
Licenses, permits, and fees	138,409,575
Investment earnings	292,743
Miscellaneous	109,627,801
Total revenues	10,025,710,420
Expenditures:	
Salaries	142,231,115
Communication and transportation of commodities	14,321,658
Commodities, materials, and supplies	10,496,157
Printing and advertising	279,386
Repairs and services	10,898,098
Utilities and rent	12,103,534
Travel and subsistence	633,505
Professional services	51,974,411
Insurance and bonds	955,210
Assistance, grants, and aid	132,898,537
Other expenses and services	18,770,900
Refunds, taxes, and claims	10,828,057
Lease interest	242,115
Capital outlay	27,640,084
Total expenditures	434,272,767
Excess of revenues over expenditures	9,591,437,653
Other financing sources (uses):	
Transfers in	350,809,117
Transfers out	(8,350,128,971)
Issuance of leases	23,277,842
Total other financing sources (uses)	(7,976,042,012)
Net change in fund balance	1,615,395,641
Fund balance - beginning	2,377,222,283
Fund balance - ending	$ 3,992,617,924

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

Statement of Net Position
Proprietary Funds
June 30, 2022

		Enterprise Fund Office of the Arkansas Lottery
Assets		
Current assets:		
Cash and cash equivalents	$	7,291,001
Cash and cash equivalents - restricted		177,766,490
Accounts receivable, net		14,357,022
Due from other State agencies		15,928,172
Prepaid items		158,621
Total current assets		215,501,306
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents		20,500,000
Deposits with Multi-State Lottery Association		2,034,648
Capital assets:		
Depreciable, net		2,096,536
Total noncurrent assets		24,631,184
Deferred Outflows of Resources		
Deferred outflows related to pensions		745,414
Deferred outflows related to other post employment benefits		504,192
Total deferred outflows		1,249,606
Total assets and deferred outflows of resources		241,382,096
Liabilities		
Current liabilities:		
Accounts payable		20,266
Prizes payable		22,982,884
Accrued and other liabilities		4,286,394
Due to other funds		49,107
Due to other State agencies		1,736,583
Due to Lottery Scholarship Trust Account		192,693,719
Leases payable		259,870
Claims, judgments, and compensated absences		64,928
Other postemployment benefits liability		98,211
Unearned revenue		308,891
Total current liabilities		222,500,853
Noncurrent liabilities:		
Other postemployment benefits liability		2,137,345
Net pension liability		1,476,746
Leases payable		884,084
Claims, judgments, and compensated absences		379,179
Total noncurrent liabilities	$	4,877,354

Continued on the following page

Statement of Net Position
Proprietary Funds
June 30, 2022

Continued from the previous page

		Enterprise Fund Office of the Arkansas Lottery
Deferred Inflows of Resources		
Deferred inflows related to pensions	$	2,794,615
Deferred inflows related to other post employment benefits		1,373,784
Total deferred inflows of resources		4,168,399
Total liabilities and deferred inflows of resources		231,546,606
Net Position		
Net investment in capital assets		963,903
Restricted for:		
Scholarship shortfall reserve		20,000,000
Retailer bond reserve		500,000
Deposits with Multi-State Lottery Association		2,034,648
Unclaimed prizes reserve		1,000,000
Unrestricted (deficit)		(14,663,061)
Total net position		9,835,490
Total liabilities, deferred inflows of resources and net position	$	241,382,096

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, 2022

		Enterprise Fund: Office of the Arkansas Lottery
Operating revenues:		
Instant ticket sales	$	480,101,229
Online ticket sales		99,463,473
Retailer application, fidelity, bond, and service fees		669,288
Other revenue		1,788
Total operating revenues		580,235,778
Operating expenses:		
Instant game prizes		347,682,702
Online game prizes		54,723,364
Retailer commissions		32,801,115
Gaming contract costs		29,745,565
Compensation and benefits		3,276,934
Marketing, advertising, and promotions		6,542,802
General and administrative expenses		2,612,894
Services provided by Arkansas Division of Higher Education		1,723,995
Services provided by Arkansas Legislative Audit		163,850
Depreciation and amortization		657,311
Total operating expenses		479,930,532
Operating income		100,305,246
Nonoperating revenues (expenses):		
Investment earnings (loss)		726,328
Interest expense		(16,691)
Income before transfers		101,014,883
Transfers out		(99,386,657)
Change in net position		1,628,226
Total net position - beginning		8,207,264
Total net position - ending	$	9,835,490

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, 2022

	Enterprise Fund Office of the Arkansas Lottery
Cash flows from operating activities:	
Cash received from retailers and others	$ 584,515,863
Cash paid for prizes	(404,312,420)
Cash paid for gaming vendors	(31,958,022)
Cash paid for retailer commissions	(32,801,115)
Cash paid for marketing and advertising	(6,492,380)
Cash paid for employee services	(5,104,227)
Cash paid for other expenses	(4,471,029)
Net cash provided by operating activities	99,376,670
Cash flows from noncapital financing activities:	
Transfers to Arkansas Division of Higher Education	(74,750,000)
Net cash used in noncapital financing activities	(74,750,000)
Cash flows from investing activities:	
Interest and dividends on investments	726,329
Net cash provided by investing activities	726,329
Net increase in cash and cash equivalents	25,352,999
Cash and cash equivalents - beginning	180,204,492
Cash and cash equivalents - ending	$ 205,557,491

Continued on the following page

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2022

Continued from the previous page

Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$	100,305,246
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		657,311
Pension expense		(764,254)
Other post employment benefits expense		(1,158,914)
Lease expense		(230,355)
Net changes in assets and liabilities:		
Accounts receivable		4,189,932
Receivable from other funds of the State		(869)
Prepaid items		(33,933)
Deposits with Multi-State Lottery Association		96,328
Accounts payable		15,140
Prizes payable		(2,002,682)
Accrued and other liabilities		(3,020,760)
Due to other funds of the State		1,194,891
Compensated absences		38,568
Unearned revenue		91,021
Net cash provided by operating activities	$	99,376,670

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

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2022

	Custodial Funds
Assets	
Cash and cash equivalents	$ 6,140,181
Total assets	$ 6,140,181
Liabilities	
Due to other governments	$ 123,990
Child support payable	6,016,191
Total liabilities	$ 6,140,181
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, 2022

	Custodial Funds
Additions:	
Child support deposits	$ 307,454,439
Total additions	307,454,439
Deductions:	
Child support disbursements	307,454,439
Total deductions	307,454,439
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, 2022

(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 (Enterprise 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) 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.

(c) 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.

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, 2022, is related to projected refund estimates attributable to fiscal year 2022 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 consumption of net assets 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 acquisition of net assets 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. Investments are recorded at fair value.

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.

(d) 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.

(e) New Accounting Pronouncements Not Yet Required to be Adopted

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 its 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. 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 conveys 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. 99, *Omnibus 2022,* addresses several practice issues to improve consistency of application and comparability in accounting and financial reporting. Issues addressed include:

- Classification and reporting of derivative instruments within the scope of Statement No. 53.
- Clarification of provisions in Statement No. 87.
- Clarification of provisions in Statement No. 94.
- Clarification of provisions in Statement No. 96.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34.
- Terminology updates related to certain provisions of Statement No. 63.
- Terminology used in Statement No. 53.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2023 (i.e., fiscal year 2024)

GASB Statement No. 100, *Accounting Changes and Error Corrections, an Amendment to GASB Statement No. 62,* the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023 (i.e., fiscal year 2024).

GASB Statement No. 101, *Compensated Absences,* the objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that a liability for leave not used and leave that has been used but not yet paid, be recognized. This Statement also requires that a liability for certain types of compensated absences not be recognized until the leave is used. This Statement amends the existing requirement to disclose the gross changes in a liability for compensated absences to allow governments to disclose only the net change in the liability. In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (i.e., fiscal year 2025).

(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, 2022, the reported cash in bank and cash in State Treasury of the general fund were $33,744,341 and $4,774,715,567 respectively. None of the general fund deposits were exposed to custodial credit risk.

At June 30, 2022, the reported cash in bank and cash in State Treasury of the enterprise funds were $206,127,343 and $227,175, respectively. None of the enterprise fund deposits were exposed to custodial credit risk.

At June 30, 2022, the reported cash in bank and cash in State Treasury of the fiduciary funds were $6,016,191 and $123,990, 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, 2022, the DFA had an investment in commercial paper of $7,295,863 held properly in safekeeping with a maturity of less than 90 days and an A-1 credit rating from S & P.

(3) Receivables

Receivables at June 30, 2022, consisted of the following:

	Accounts	Taxes		Loans	Allowance for Uncollectibles	Total
General Fund	$ 2,493,433	$ 976,511,070	(1)	$ 297,158	$ (469,238,172)	$ 510,063,489
Enterprise Fund	14,357,022					14,357,022
Total	$ 16,850,455	$ 976,511,070		$ 297,158	$ (469,238,172)	$ 524,420,511

(1) Receivable balances of $6,100,960 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	Enterprise Funds	Total
General Fund	$ 50,536	$ 50,536
Total	$ 50,536	$ 50,536

Interfund receivables and payables consist of administration fees due from the Office of the Arkansas Lottery to the General Fund totaling $50,536. 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, 2022, was as follows:

	Balance July 1, 2021	Adjustments/ Transfers (1)	Additions	Deletions	Balance June 30, 2022
Governmental activities (2):					
Capital assets, non-depreciable/amortizable:					
Land and easements	$ 555,277	$	$	$	$ 555,277
Construction in progress	2,087,932	(170,004)	740,167		2,658,095
Total capital assets, non-depreciable/amortizable	2,643,209	(170,004)	740,167		3,213,372
Capital assets, depreciable/amortizable:					
Land improvements	18,653				18,653
Infrastructure	27,100				27,100
Buildings	28,554,457				28,554,457
Equipment	27,111,032	(102,775)	3,258,190	(2,850,165)	27,416,282
Intangibles	56,425,321	67,514	363,885		56,856,720
Right-to-use assets					
RtU Buildings			23,248,164		23,248,164
RtU Equipment			29,678		29,678
Total capital assets, depreciable/amortizable	112,136,563	(35,261)	26,899,917	(2,850,165)	136,151,054
Less accumulated depreciation/amortization for:					
Land improvements	(12,099)	(1)	(386)		(12,486)
Infrastructure	(2,748)		(903)		(3,651)
Buildings	(16,278,119)		(532,782)		(16,810,901)
Equipment	(22,441,544)	(599)	(1,523,133)	2,817,728	(21,147,548)
Intangibles	(49,974,704)		(1,373,381)		(51,348,085)
Right-to-use assets					
RtU Buildings			(5,983,895)		(5,983,895)
RtU Equipment			(6,595)		(6,595)
Total capital assets, depreciable/amortizable	(88,709,214)	(600)	(9,421,075)	2,817,728	(95,313,161)
Net capital assets, depreciable/amortizable	23,427,349	(35,861)	17,478,842	(32,437)	40,837,893
Governmental capital assets, net	$ 26,070,558	$ (205,865)	$ 18,219,009	$ (32,437)	$ 44,051,265

(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, 2021	Adjustments/ Transfers (1)	Additions	Deletions	Balance June 30, 2022
Business-type activities:					
Capital assets, depreciable/amortizable:					
Buildings	$ 492,796	$	$	$	$ 492,796
Equipment	2,853,939			(10,369)	2,843,570
Right-to-use asset - Buildings			1,359,159		1,359,159
Total capital assets, depreciable/amortizable	3,346,735		1,359,159	(10,369)	4,695,525
Less accumulated depreciation/amortization for:					
Buildings	(492,796)				(492,796)
Equipment	(1,459,251)		(430,784)	10,369	(1,879,666)
Right-to-use asset - Buildings			(226,527)		(226,527)
Total accumulated depreciation/amortization	(1,952,047)		(657,311)	10,369	(2,598,989)
Business-type activities capital assets, net	$ 1,394,688	$	$ 701,848	$	$ 2,096,536

(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, 2022, are summarized as follows:

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Due within One Year	Due Greater than One Year
Governmental Activities: (2)						
Lease liability	$	$ 23,275,477	$ 5,823,759	$ 17,451,718	$ 6,213,128	$ 11,238,590
Compensated absences (1)	9,303,508	9,345,411	8,704,578	9,944,341	1,453,863	8,490,478
Net pension liability	1,730,762,813		1,204,414,390	526,348,423		526,348,423
Governmental activities total	$ 1,740,066,321	$ 32,620,888	$ 1,218,942,727	$ 553,744,482	$ 7,666,991	$ 546,077,491

(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.

Business-type activities:	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Due within One Year	Due Greater than One Year
Lease liability	$	$ 1,359,159	$ 215,205	$ 1,143,954	$ 259,870	$ 884,084
Compensated absences (1)	405,539	292,467	253,899	444,107	64,928	379,179
Net pension liability	5,317,319		3,840,573	1,476,746		1,476,746
Total OPEB obligation	4,616,749		2,381,193	2,235,556	98,211	2,137,345
Business-type activities total	$ 10,339,607	$ 1,651,626	$ 6,690,870	$ 5,300,363	$ 423,009	$ 4,877,354

(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

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

Lease Receivables

As of June 30, 2022, the Department had no Lease Receivables.

Lease Obligations

The Department leases a significant amount of nonfinancial assets including buildings and equipment. The related obligations are presented in the amounts equal to the present value of lease payments expected to be made during the lease term (less any lease incentives).

The Department had no significant lease expenses related to variable payments as of June 30, 2022. The Department did not incur any lease expenses related to residual value guarantees, lease termination penalties, or losses due to impairment. The Department did not have any commitments for any leases prior to the start of the lease term.

Governmental Activities

Future amounts required to pay principal and interest on governmental activity lease obligations as of June 30, 2022, were as follows:

	Principal	Interest	Total
Year ending June 30:			
2023	$ 6,213,140	$ 258,859	$ 6,471,999
2024	4,089,673	166,140	4,255,813
2025	2,564,544	107,692	2,672,236
2026	2,456,237	61,578	2,517,815
2027	1,143,413	23,544	1,166,957
2028-2032	984,733	21,681	1,006,414
Total	$ 17,451,740	$ 639,494	$ 18,091,234

Business-Type Activities

Future amounts required to pay principal and interest on business-type activity lease obligations as of June 30, 2022, were as follows:

	Principal	Interest	Total
Year ending June 30:			
2023	$ 259,870	$ 16,557	$ 276,427
2024	270,765	12,289	283,054
2025	276,515	7,864	284,379
2026	288,098	3,323	291,421
2027	48,707	98	48,805
Total	$ 1,143,955	$ 40,131	$ 1,184,086

(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, 2022, is as follows:

	Restricted Purposes	Committed Purposes	Assigned Purposes
Program Requirements	$ 377,204,644	$ 2,857,227,688	$
Child Support Enforcement		8,940,155	
Disaster Assistance		8,641,556	
Tobacco Settlement		814,969	
State Administration of Justice		617,741	
Other			1,247,273
Total	$ 377,204,644	$ 2,876,242,109	$ 1,247,273

The Department's Program Requirements include: (1) $349,042,595 in fund balance restricted by enabling legislation (Act 108 of 2003) to provide an adequate educational system; (2) $19,580,587 in fund balance restricted by "Coronavirus Aid, Relief, and Economic Security Act" or the "CARES Act," under Assistance Listing Number (ALN) 21.019 to provide federal support for the COVID-19 pandemic. (3) $2,760,795,137 in fund balance committed by the Arkansas General Assembly through legislation for the Long Term Reserve Fund; (4) $7,262,456 in fund balance committed by the Arkansas General Assembly through legislation to fund the Commercial Driver License program; (5) $1,183,711 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) $11,960,756 in fund balance committed by the Arkansas General Assembly through legislation to fund fire protection services and (7) $7,617,372 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 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 Lottery Scholarship Trust Account (Scholarship Trust Account). The Retailer Bond Reserve may be used to cover losses due to any retailer nonfeasance, malfeasance, or misfeasance or 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 Scholarship 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 bond fee 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 (b) (1) requires "On or before the fifteenth day of each month, the OAL shall deposit the net proceeds from the lottery into one or more trust accounts at one 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) and 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 income before transfers. 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, 2022, the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of $(12,427,505).

In addition, the OAL's net OPEB liability at June 30, 2022, (see note 10) of $2,235,556, which consist of a current liability of $98,211 and long-term liability of $2,137,345, 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, 2022, of $(2,235,556). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2022, was $(14,663,061).

(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 and participating employees are established and may be amended by the Arkansas General Assembly. The contribution provisions 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, 2022, 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 $595,752 for the year ended June 30, 2022.

Pension Liability

Business Type (OAL)

For fiscal year ended June 30, 2022, the OAL reported pension expense of ($171,622) and the OAL's net pension liability was $1,476,746. 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, 2022, 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, 2022, was $(1,158,914) and $2,235,556 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 employee benefit programs. In addition, the Board ensures that the State 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 $3,500,000 aggregate retention paid from the Arkansas Multi-Agency 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 $3,500,000. 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, 2022, totaled $167,006.

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, 2022, 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, 2022, 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, 2022, the Department had commitments of $7,249,653 for professional service contracts.

Proprietary Activities

Office of the Arkansas Lottery

Litigation

At June 30, 2022, 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, 2022, were $29,654,955.

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 first option to extend the contract for a period of one year. Effective July 1, 2021, an amended contract was agreed upon with an expiration date of June 30, 2022. The base compensation was agreed upon to not exceed $500,000 per annum, paid monthly. Incentive compensation costs are incurred as a percentage of operating income. The incentive compensation paid or accrued for fiscal year 2022 totaled $1,000,000.

(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 $262,466,430 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:

	2022	2021
Create Rebate business incentives, beginning of year	$ 268,199,573	$ 250,744,548
Incurred Create Rebate business incentives, net of allowance	10,941,294	30,723,370
Create Rebate business incentives payments/dismissals	(16,674,437)	(13,268,345)
Create Rebate business incentives, end of year	$ 262,466,430	$ 268,199,573
Current Create Rebate business incentives	$ 14,966,282	$ 13,612,963
Noncurrent Create Rebate business incentives	247,500,148	254,586,610

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 $1,796,449 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:

	2022	2021
Tax Back business incentives, beginning of year	$ 2,654,763	$ 2,175,802
Incurred Tax Back business incentives, net of allowance	2,244,474	2,507,161
Tax Back business incentives payments/dismissals	(3,102,788)	(2,028,200)
Tax Back business incentives, end of year	$ 1,796,449	$ 2,654,763
Current Tax Back business incentives	$ 1,796,449	$ 2,654,763
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, 2022, 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 $200,000; 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, 2022.

(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 $20,000,000. In the calendar year when the cumulative amount of credits taken reaches $20,000,000, 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, 2022, is as follows:

Tax Abatement Program	2022
Income Tax Abatements	
ArkPlus Program	$ 7,216,847
In-House Research and Development Program	2,211,428
Advantage Arkansas Program	576,219
Water Resource Conservation and Development Program	812,290
Low Income Housing Program	398,718
Targeted Research Program	1,544,035
Wetland and Riparian Zone Program	277,070
Sales and Use Tax Abatements	
InvestArk Program	$ 31,224,487
Tourism Development Program	635,361
Major Maintenance and Improvement Program	3,115,695
Tax Back Program	2,244,473

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, 2022, 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. 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, 2022, the OAL had reserve fund deposits with MUSL of $2,034,648. MUSL does not maintain prize reserve funds for Lucky for Life®.

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, 2022, is summarized in the table below:

	Operating Revenues	Prizes
Powerball®	$ 31,021,045	$ 14,309,397
Mega Millions®	15,488,984	7,369,248
Lucky for Life®	6,240,794	4,181,573

(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. As of June 2022, the State of Arkansas has received distributions of SLFRF assistance in the amount of $1,573,121,581, 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 $933,265,019 for SLFRF funds unexpended as of June 30, 2022. In the period from July 1, 2021, through March 1, 2023, the State of Arkansas expended $710,076,431 of SLFRF funding resulting in a remaining liability of $863,045,150.

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 repaid the Federal government $8,389,207 on January 6, 2023.

In August 2022, following a special legislative session, the Governor signed identical Acts that accelerated planned reductions in individual income tax rates and corporate income tax rates beginning in FY2023. These reductions will continue to increase through 2027. These Acts also provide an income tax deduction for expensing certain property, as well as an inflationary relief income tax credit for FY2023. These tax reductions are expected to reduce the State’s general revenue by $500,150,000 in FY2023, $166,620,000 in FY2024, $69,520,000 in FY2025, $18,400,000 in FY2026, and $8,400,000 in FY2027.

Business-Type Activities

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

On August 10, 2022, the Arkansas Division of Higher Education (ADHE), refunded $15,927,228 to the OAL. This amount was due to a reduction in awards and payments from ADHE. On September 23, 2022, at the request of the ADHE, a payment of $30,000,000 was made from the Lottery Scholarship Trust Account to ADHE. On February 23, 2023, at the request of ADHE, a payment of $30,000,000 was made from the Lottery Scholarship Trust Account to ADHE.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
June 30, 2022

	Budgeted amounts		Actual	Variance with final budget - positive
	Original	**Final**	**amounts**	**(negative)**
Expenditures: *				
Current:				
General	$ 1,833,519,166	$ 1,896,495,618	$ 1,031,603,392	$ 864,892,226
Capital Outlay	822,000	7,315,484	4,206,005	3,109,479
Total Expenditures	$ 1,834,341,166	$ 1,903,811,102	$ 1,035,809,397	$ 868,001,705

* Expenditures are appropriated, amounts blocked determined available budget. Blocking is revised quarterly to match the forecast

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, 2022

(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, 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	$	434,272,767
Less non appropriated expenditures		(19,243,372)
Plus expenses eliminated or reclassed as transfers for reporting purposes		539,524
Basis of accounting differences		620,240,478
Total statutory basis expenditure - General Fund	$	1,035,809,397