

# **DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES**

## **Annual Financial Report**

**June 30, 2021**

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LEGISLATIVE JOINT AUDITING COMMITTEE



DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
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**Sen. David Wallace**  
Senate Chair  
**Sen. John Payton**  
Senate Vice Chair



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

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

**LEGISLATIVE JOINT AUDITING COMMITTEE**  
**ARKANSAS LEGISLATIVE AUDIT**

**INDEPENDENT AUDITOR'S REPORT**

Department of Transformation and Shared Services  
Legislative Joint Auditing Committee

***Report on the Financial Statements***

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

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

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

### ***Emphasis of Matter***

As indicated above, the financial statements of the Department of Transformation and Shared Services are intended to present the financial position; the changes in financial position; where applicable, cash flows and budgetary comparisons 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 Transformation and Shared Services. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2021; the changes in its financial position; or, where applicable, its cash flows and budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, as discussed in Note 1.D to the financial statements, in 2021 the Department of Transformation and Shared Services implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department of Transformation and Shared Services' departmental financial statements. The Schedule of Selected Information, Financial Information by Business Area, and Other General Information are presented for purposes of additional analysis and are not a required part of the departmental financial statements.

The Schedule of Selected Information, Financial Information by Business Area, and Other General Information have not been subjected to the auditing procedures applied in the audit of the departmental financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023 on our consideration of the Department of Transformation and Shared Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Transformation and Shared Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Transformation and Shared Services' internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
March 30, 2023  
SAC991421

# Arkansas

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



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### 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 Transformation and Shared Services  
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 Transformation and Shared Services (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department of Transformation and Shared Services' departmental financial statements, and have issued our report thereon dated March 30, 2023.

#### ***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 opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***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

A handwritten signature in black ink, appearing to read "Tom Bullington", with a stylized flourish at the end.

Tom Bullington, CPA  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 30, 2023

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
BALANCE SHEET – GOVERNMENTAL FUND  
JUNE 30, 2021

Exhibit A

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 115,479,964
Other receivables	2,189,134
Due from other state agencies	9,747,232
Inventories	563,078
Accrued interest	4,755
Prepaid items	4,489,531
Other assets	<u>2,246,355</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 134,720,049</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 10,435,413
Due to revenue	39,615
Payroll liability	1,375,812
Due to other state agencies	393,880
Due to other governments	11,898
Unearned revenue	<u>126</u>
Total Liabilities	<u>12,256,744</u>
Deferred inflows of resources:	
Related to revenues	<u>647,727</u>
Fund balance:	
Nonspendable for:	
Prepaid items	4,489,531
Inventories	563,078
Restricted for:	
Program requirements	25,736
Debt service	2,969,583
Committed for:	
Program requirements	14,389,250
Capital projects	1,835,636
Insurance	62,166,669
Other	15,226,525
Assigned for Shared Services	5,072,657
Unassigned	<u>15,076,913</u>
Total Fund Balance	<u>121,815,578</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b><u>\$ 134,720,049</u></b>

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit B

	<u>General Fund</u>
REVENUES	
Health and life insurance premiums	\$ 303,678,714
Licenses, permits, and fees	78,563,331
Refunds, taxes, and claims	10,291,503
Interest income	199,290
Miscellaneous	<u>1,234,168</u>
 TOTAL REVENUES	 <u>393,967,006</u>
EXPENDITURES	
Salary and benefits	28,548,485
Communication and transportation of commodities	24,804,953
Printing and advertising	40,901
Repairing and servicing	5,517,064
Utilities and rent	4,814,519
Travel and subsistence	61,364
Professional services	9,797,270
Insurance and bonds	326,405
Other expenses and services	2,579,438
Commodities, materials, and supplies	21,986,330
Refunds, taxes, and claims	9,459,502
Health and life insurance premiums	325,620,378
Debt service	5,017,580
Capital outlay	<u>35,663,814</u>
 TOTAL EXPENDITURES	 <u>474,238,003</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(80,270,997)</u>
OTHER FINANCING SOURCES (USES)	
Interagency transfers:	
Transfers in	20,555,866
Transfer out	(2,723,422)
Bond proceeds	29,616,984
Bond discounts/premiums	2,527,710
Payment to refunding escrow agent	(4,122,153)
Proceeds of financing agreements with ADFA	814,833
Sale of assets	3,357,213
Prior-year refunds to expenditures	<u>1,497,703</u>
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>51,524,734</u>
 NET CHANGE IN FUND BALANCE	 (28,746,263)
 FUND BALANCE - JULY 1	 <u>150,561,841</u>
 FUND BALANCE - JUNE 30	 <u>\$ 121,815,578</u>

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



DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF NET POSITION – PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit C

	Public School Employee Insurance Plan
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 138,566,707
Other receivables	2,299,825
Accrued interest	7,754
Prepaid Items	4,186
Total current assets	<u>140,878,472</u>
Noncurrent assets:	
Capital assets - depreciable, net	<u>967,461</u>
 TOTAL ASSETS	 <u><u>\$ 141,845,933</u></u>
LIABILITIES AND NET POSITION	
Liabilities:	
Accounts payable	\$ 8,323,314
Claims payable	35,890,000
Unearned revenue	<u>1,016,809</u>
 Total Liabilities	 <u>45,230,123</u>
NET POSITION	
Invested in capital assets	967,461
Unrestricted	<u>95,648,349</u>
Total Net Position	<u>96,615,810</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 141,845,933</u></u>

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit D

	Public School Employee Insurance Plan
	<hr/>
OPERATING REVENUES	
Charges for sales and services	\$ 375,701,747
OPERATING EXPENSES	
Benefit and aid payments	397,278,807
Supplies and services	1,086,400
Depreciation and amortization	<hr/> 324,049
TOTAL OPERATING EXPENSES	<hr/> 398,689,256
OPERATING INCOME (LOSS)	<hr/> (22,987,509)
NON-OPERATING REVENUES	
Investment earnings	236,842
Grants and contributions	<hr/> 200,329
TOTAL NON-OPERATING REVENUES	<hr/> 437,171
INCOME (LOSS) BEFORE TRANSFERS	(22,550,338)
Transfers in	37,343,293
Transfer out	<hr/> (39,549,312)
TOTAL TRANSFERS IN (OUT), NET	<hr/> (2,206,019)
CHANGE IN NET POSITION	(24,756,357)
NET POSITION - JULY 1	<hr/> 121,372,167
NET POSITION - JUNE 30	<hr/> \$ 96,615,810

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF CASH FLOWS – PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit E

	Public School Employee Insurance Plan
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 373,717,962
Payments of benefits	(384,708,815)
Payments to suppliers	<u>(5,910,681)</u>
Net cash provided by (used in) operating activities	<u>(16,901,534)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	37,343,293
Transfers out	(39,549,312)
Other non-capital financing activities	<u>(219,121)</u>
Net cash provided by (used in) noncapital financing activities	<u>(2,425,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,233,196
Interest and dividends on investments	253,994
Federal grant funds expended	<u>200,329</u>
Net cash provided by (used in) investing activities	<u>1,687,519</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,639,155)
CASH AND CASH EQUIVALENTS - JULY 1	<u>156,205,862</u>
CASH AND CASH EQUIVALENTS - JUNE 30	<u>\$ 138,566,707</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	\$ (22,987,509)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	324,049
Prior-year audit adjustment to net position	(7,433,850)
Net changes in assets and liabilities:	
Accounts receivable	5,450,065
Accounts payable and other accrued liabilities	<u>7,745,711</u>
Total adjustments	<u>6,085,975</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (16,901,534)</u>

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF FIDUCIARY NET POSITION – CUSTODIAL FUND  
JUNE 30, 2021

Exhibit F

	Arkansas State Employee Cafeteria Plan
ASSETS	
Cash and cash equivalents	<u>\$ 740,082</u>
NET POSITION	
Restricted for individuals, organizations, and other governments	<u>\$ 740,082</u>

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – CUSTODIAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit G

	Arkansas State Employee Cafeteria Plan
ADDITIONS	
Interest income	\$ 2,088
Beneficiary deposits	<u>4,536,478</u>
TOTAL ADDITIONS	<u>4,538,566</u>
DEDUCTIONS	
Beneficiary withdrawals/payments	4,392,916
Administrative expenses	<u>4,717</u>
TOTAL DEDUCTIONS	<u>4,397,633</u>
Change in net position amounts held for individuals, organizations, and other governments	140,933
NET POSITION - JULY 1 (as restated)	<u>599,149</u>
NET POSITION - JUNE 30	<u>\$ 740,082</u>

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit H

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount			
	Original	Final	Actual	
REVENUES				
Health and life insurance premiums			\$ 303,678,714	\$ 303,678,714
Licenses, permits, and fees	\$ 94,400,187	\$ 94,400,187	78,563,331	(15,836,856)
Refunds, taxes, and claims	5,851,331	5,851,331	10,291,503	4,440,172
Interest income			199,290	199,290
Federal revenues	3,500,000	3,500,000		(3,500,000)
Miscellaneous	3,333,099	3,333,099	1,234,168	(2,098,931)
TOTAL REVENUES	107,084,617	107,084,617	393,967,006	286,882,389
EXPENDITURES				
Regular salaries	27,692,341	27,534,955	21,158,284	6,376,671
Extra help	363,975	357,512	48,984	308,528
Operating expenses	25,743,660	98,889,969	78,701,472	20,188,497
Personal services matching	8,826,261	8,815,688	7,342,118	1,473,570
Unemployment benefits and expenses			532,025	(532,025)
Construction	2,500,000	212,500,000		212,500,000
Conference fees and travel	229,951	220,051	17,168	202,883
Professional fees and services	2,495,239	3,599,838	19,130,330	(15,530,492)
Capital outlay	5,704,100	10,389,425	6,720,577	3,668,848
Refunds and reimbursements	4,717,700	4,717,700	765,463	3,952,237
Health claims			305,860,764	(305,860,764)
Marketing and redistribution proceeds		5,251		5,251
Special maintenance	5,404,293	162,793		162,793
Building maintenance/improvements	121,000	121,000	30,525,942	(30,404,942)
Contingency	125,000			
Information technology improvements	76,743,655	55,975,456		55,975,456
GeoStorage and framework	850,000	94,100		
Debt service	16,941,557	16,677,589	3,434,876	13,242,713
TOTAL EXPENDITURES	178,458,732	440,061,327	474,238,003	(34,270,776)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(71,374,115)	(332,976,710)	(80,270,997)	252,611,613

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit H

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount			
	Original	Final	Actual	
OTHER FINANCING SOURCES (USES)				
Interagency transfers:				
Transfers in	\$ 22,610,826	\$ 22,610,826	\$ 20,555,866	\$ (2,054,960)
Transfer out	(2,520,000)	(2,520,000)	(2,723,422)	(203,422)
Bond proceeds			29,616,984	29,616,984
Bond discounts/premiums			2,527,710	2,527,710
Payment to refunding escrow agent			(4,122,153)	(4,122,153)
Proceeds of financing agreements with ADFA			814,833	814,833
Sale of assets			3,357,213	3,357,213
Prior-year refunds to expenditures			1,497,703	1,497,703
TOTAL OTHER FINANCING SOURCES (USES)	20,090,826	20,090,826	51,524,734	31,433,908
NET CHANGE IN FUND BALANCE	(51,283,289)	(312,885,884)	(28,746,263)	284,045,521
FUND BALANCE - JULY 1	150,561,841	150,561,841	150,561,841	
FUND BALANCE - JUNE 30	\$ 99,278,552	\$ (162,324,043)	\$ 121,815,578	\$ 284,045,521

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 910 of 2019 created the Department of Transformation and Shared Services as a new cabinet-level department that consists of three divisions that were formerly part of the Department of Finance and Administration (Employee Benefits Division [EBD], Office of State Procurement [OSP], and Office of Personnel Management [OPM]) and three other agencies (Division of Building Authority [DBA], Geographical Information System Office [GIS], and Division of Information Systems [DIS]).

B. Basis of Presentation – Fund Accounting

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

Governmental Funds

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

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to report operations that are financed and operated in a manner similar to private business where the intent of the Agency is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, federal grants, and other Agency funds. The major fund included in this financial report is the Public School Employee Health and Life Insurance Fund which is responsible for providing health and life insurance along with a prescription drug benefit plan to participating school employees.

Fiduciary Funds

Trust and Custodial Funds – Trust and Custodial Funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Custodial Funds. The specific activity accounted for at this Agency is the Arkansas State Employee Cafeteria Plan.

C. Basis of Accounting

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



DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Accounting Restatement

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

**Custodial Funds**

Beginning net position	\$ 0
Prior-year GASB Statement No. 84	
Net fiduciary activities	599,149
Beginning net position, restated	<u>\$ 599,149</u>

E. Cash and Cash Equivalents

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

F. Deposits and Investments

State Board of Finance Policies

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

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

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

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Deposits

Deposits are carried at cost and consist of cash in bank and cash in State Treasury totaling \$47,802,809 and \$48,627,068, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2021, none of the Agency's bank balance of \$47,836,875 was exposed to custodial credit risk.

Investments

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

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

The Agency has the following recurring fair value measurements as of June 30, 2021:

Investment Type	Valuation Method	Amount
State Treasury Money Management Trust Fund	Level 1	<u>\$ 158,356,875</u>

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

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

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

As of June 30, 2021, the Agency has the following investment balances and segmented maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
State Treasury Money Management Trust Fund	<u>\$ 158,356,875</u>	<u>\$ 158,356,875</u>			

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary shown above indicates that none of the Agency's investment maturities are one year or longer.

G. Interfund Balances and Transfers

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Details of interfund transfers are disclosed in the financial statements.

H. Inventories

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

I. Prepaid Expenses

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

J. Deferred Inflows of Resources

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

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. Fund Equity

Fund Balance

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

The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g., prepaid items, inventories, long-term amount of loans and notes receivables, etc.) or (b) legally or contractually required to be maintained intact.

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

*Restricted fund balance.* This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly, the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.

*Assigned fund balance.* This classification reflects amounts constrained by the State's "intent" to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or approved methods of financing.

*Unassigned fund balance.* This amount is the residual classification for the general fund.

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned, and unassigned.

L. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021

Note 2: Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

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

Capital assets activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
Land	\$ 8,282,687			\$ 8,282,687
Improvements	2,827,912	\$ 3,219,553	\$ 13,391	6,034,074
Buildings	101,779,784	25,446,892		127,226,676
Equipment	37,652,434	7,575,585	1,263,897	43,964,122
DP equipment	2,487,442		729,953	1,757,489
Exhibit art and history treasures	16,451			16,451
Intangibles	9,267,944	550,773		9,818,717
Infrastructure	81,255			81,255
Assets under construction	1,444,297	3,627,633	1,523,296	3,548,634
Total governmental activities	<u>\$ 163,840,206</u>	<u>\$ 40,420,436</u>	<u>\$ 3,530,537</u>	<u>\$ 200,730,105</u>
<b>Proprietary activities:</b>				
Capital assets, being depreciated:				
Equipment	\$ 93,878			\$ 93,878
Intangibles	3,216,755			3,216,755
Assets under construction	315,531		\$ 315,531	
Total capital assets, being depreciated	<u>3,626,164</u>		<u>315,531</u>	<u>3,310,633</u>
Less accumulated depreciation for:				
Equipment	(67,432)	\$ (4,454)		(71,886)
Intangibles	(1,951,690)	(319,595)		(2,271,285)
Total accumulated depreciation	<u>(2,019,122)</u>	<u>(324,049)</u>		<u>(2,343,171)</u>
Total proprietary activities, net	<u>\$ 1,607,042</u>	<u>\$ (324,049)</u>	<u>\$ 315,531</u>	<u>\$ 967,462</u>

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
SCHEDULE OF SELECTED INFORMATION  
JUNE 30, 2021  
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,	
	2021	2020
<b>General Fund</b>		
Total Assets	\$ 134,720,049	\$ 160,185,613
Total Liabilities	12,256,744	9,511,338
Total Deferred Inflows of Resources	647,727	112,436
Total Fund Equity	121,815,578	150,561,839
Total Revenues	393,967,006	378,770,468
Total Expenditures	474,238,003	419,662,121
Total Other Financing Sources (Uses)	51,524,734	191,453,492
<b>Proprietary Fund</b>		
Total Assets	\$ 141,845,933	\$ 157,837,809
Total Liabilities	45,230,123	36,465,642
Total Net Position	96,615,810	121,372,167
Total Operating Revenues	375,701,747	325,624,402
Total Operating Expenses	398,689,256	354,238,671
Total Nonoperating Revenues	437,171	2,143,318
Total Transfers In (Out) Net	2,206,019	147,843,118
<b>Fiduciary Fund</b>		
Total Assets	\$ 740,082	\$ 14,642,849
Total Liabilities		14,642,849
Net Position	740,082	
Total Additions	4,538,566	
Total Deductions	4,397,633	

**NOTE:** FY2020 was the initial audit year for the Department of Transformation and Shared Services.

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
FINANCIAL INFORMATION BY BUSINESS AREA  
JUNE 30, 2021  
(UNAUDITED)

Schedule 2

Board/Commission/Division	Business Area	Assets	Liabilities & Deferred Inflows	Revenues	Expenditures	Other Financing Sources/(Uses)
Department of Transformation and Shared Services	9914/0914	\$ 77,227,050	\$ 9,414,758	\$ 306,479,248	\$ 340,499,967	\$ 15,540,866
Division of Information Services	0470	20,404,690	2,541,067	73,502,639	85,448,994	2,770,034
Arkansas Geographic Information Systems Office	0472	616,099	100,961	207,097	1,518,959	1,545,180
Division of Building Authority	0615	36,472,210	847,685	13,778,022	46,770,083	31,668,654
Totals		<u>\$ 134,720,049</u>	<u>\$ 12,904,471</u>	<u>\$ 393,967,006</u>	<u>\$ 474,238,003</u>	<u>\$ 51,524,734</u>

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
OTHER GENERAL INFORMATION  
JUNE 30, 2021  
(UNAUDITED)

A. Pension Plan

Arkansas Public Employees Retirement System (APERS)

Plan Description – The Agency contributes to APERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the APERS Board of Trustees. APERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24 of the Arkansas Code Annotated. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-501-682-7855.

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2021 and 2020, were \$3,205,805 and \$3,327,364, respectively, equal to the required contributions for each year.

B. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Transformation and Shared Services – Employee Benefits Division (DTSS-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DTSS-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DTSS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DTSS-EBD is included in the State of Arkansas's Annual Comprehensive Financial Report (ACFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Transformation and Shared Services, 501 Woodlane, Suite 201, Little Rock, Arkansas 72201 or by calling 501-319-6565.

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially determined calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed \$450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.



DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
OTHER GENERAL INFORMATION  
JUNE 30, 2021  
(UNAUDITED)

C. Compensated Absences – Employee Leave

Annual leave is earned by all full-time employees. Upon termination, employees are entitled to receive compensation for their unused accrued annual leave up to 30 days. Liabilities for compensated absences are determined at the end of the year based on current salary rates.

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

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2021 and 2020, amounted to \$2,510,161 and \$2,421,544, respectively. The net changes to compensated absences payable during the year ended June 30, 2021, amounted to \$88,617.

D. Capital Lease

The Agency has leased property which under the Governmental Accounting Standards Board Statement No. 62 (GASB 62) is treated as a capital lease. The lease(s) by category is as follows:

Class of Property	Asset Balance June 30, 2021
Buildings	\$ 46,530,992
Equipment	3,535,774
Total	<u>\$ 50,066,766</u>

The following is a schedule of future minimum lease payments under capital leases together with the present value of the minimum lease payments as of June 30, 2021:

Years Ending June 30,	Governmental Fund Types Lease Payments
2022	\$ 4,318,682
2023	4,315,310
2024	3,946,581
2025	3,681,455
2026	2,615,781
2027-2041	<u>35,658,976</u>
Total minimum lease payments	54,536,785
Amount representing interest	<u>14,728,336</u>
Present value of minimum lease payments	<u>\$ 39,808,449</u>

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
OTHER GENERAL INFORMATION  
JUNE 30, 2021  
(UNAUDITED)

E. Lease Obligations

The Agency has lease agreements for operating space that is accounted for as operating leases. The lease payments are recorded as expenditures over the life of the respective leases. Future minimum commitments under the operating leases as of June 30, 2021, were as follows:

Years Ending June 30,	Governmental Fund Types Lease Payments
2022	\$ 596,047
2023	10,500
Total minimum lease payments	<u>606,547</u>
Total rental expenditures (2021)	<u>\$ 965,655</u>

F. Notes Payable to Arkansas Development Finance Authority (ADFA)

The State issued State Agencies Facilities Refunding and Construction Bonds Series 2020 (Justice Building) in the amount of \$14.6 million to redeem the Justice Building Series 2008 and 2015, in the amounts of \$3.1 million and \$1.0 million, respectively, and to finance improvements. The bonds bear interest rates of 2.00% to 4.00% and mature in fiscal year 2051. The refunding provided an economic gain of \$473,000 and a reduction of future debt service of \$2.3 million.

The following table is a schedule of the combined future loan payments due for the note payable to ADFA:

Years Ending June 30,	Principal	Interest	Total
2022	\$ 205,000	\$ 583,741	\$ 788,741
2023	300,000	530,750	830,750
2024	310,000	521,575	831,575
2025	320,000	512,100	832,100
2026	330,000	502,325	832,325
2027 - 2031	1,770,000	2,396,732	4,166,732
2032 - 2036	926,984	931,275	1,858,259
Total	<u>\$ 4,161,984</u>	<u>\$ 5,978,498</u>	<u>\$ 10,140,482</u>

DEPARTMENT OF TRANSFORMATION AND SHARED SERVICES  
OTHER GENERAL INFORMATION  
JUNE 30, 2021  
(UNAUDITED)

G. Pledged Revenues

The Department has committed to appropriate each year, from various fee revenues, amounts sufficient to cover the principal and interest requirements on bonds issued by the Arkansas Development Finance Authority (ADFA). ADFA has pledged, as the sole security for the bonds, the annual appropriations from the State. The following is a summary of the remaining principal and interest due (approximate amount of pledge), the gross pledged revenue collected and principal and interest paid during the year ended June 30, 2021:

Revenue Pledged	Purpose of Debt	Term of Commitment	Approximate Amount of Pledge	Approximate Proportion of Revenue Pledged	Pledged Revenue	Principal and Interest
Rental income	Purchase of building	2050	\$ 48,760,624	40.53%	\$ 4,148,037	\$2,567,749
Court filing fees	Construction of building and refunding	2050	\$ 10,140,482	35.32%	\$ 990,000	\$4,422,939