

**DEPARTMENT OF COMMERCE**

**Annual Financial Report**

**June 30, 2020**



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# Arkansas

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



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Department of Commerce  
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 Commerce, a department of Arkansas state government, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department of Commerce's departmental financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Department of Commerce as of June 30, 2020; the respective changes in financial position; and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for 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 Commerce are intended to present the financial position; the changes in financial position and, 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 Commerce. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2020; 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. Our opinion is not modified with respect to this matter.

### ***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 Commerce 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 Commerce individually. Our opinions on the departmental financial statements are not affected by the omission of this information.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Commerce's departmental financial statements. The Schedule of Selected Information, Financial Information by Business Area, Basic Financial Statements of the Arkansas Department of Finance Authority (ADFA, a component unit of the Department of Commerce), 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, Basic Financial Statements of ADFA, 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 June 29, 2021, on our consideration of the Department of Commerce's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Department of Commerce's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Commerce's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
June 29, 2021  
SAC990220

# Arkansas

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



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House Vice Chair

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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 Commerce  
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 Commerce (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department of Commerce's departmental financial statements, and have issued our report thereon dated June 29, 2021.

#### ***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; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses below as item 2020-1, that we consider to be a material weakness.

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

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and described below in the Schedule of Findings and Responses as items 2020-2 and 2020-3.

## SCHEDULE OF FINDINGS AND RESPONSES

2020-1

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework of internal controls, adopted by the State of Arkansas in the Department of Finance and Administration (DFA) Financial Management Guide, states that communications related to both operational and financial data are needed at all levels of an agency in a relevant, reliable, and timely fashion. The State did not have the policies and procedures in place to appropriately record the financial effects of the new unemployment insurance pandemic programs authorized under the CARES Act of 2020. As a result, we noted the following:

- Operating revenues were overstated by \$52,930,508 when a portion of federal grant receipts was erroneously coded to a general ledger account related to Operating revenues, as opposed to the more appropriate general ledger account related to Non-operating revenues. The State attempted to correct the misstatement, but the modification was not made for the correct amount or to the correct general ledger account. As a result, the correcting entry caused a \$19,299,223 overstatement of Non-operating revenues and a \$72,229,731 overstatement of Operating expenses.
- A federal receivable of \$170,564,947 related to the new pandemic programs [Federal Pandemic Unemployment Assistance (FPUC), Pandemic Extended Unemployment Compensation (PEUC), and Pandemic Unemployment Assistance (PUA)] was not recorded.
- Unemployment benefits payable of \$293,784,718 for the new pandemic programs (FPUC, PEUC, and PUA) were not recorded until auditors inquired about the lack of such an entry. Additionally, auditors recalculated this payable to be \$303,090,396, a difference of \$9,305,678.

Lack of appropriate controls over financial reporting could cause financial statements to be misstated.

We notified DFA of the potential misstatements, and an entry was made in AASIS to correct the amounts listed above.

We recommend the State work to improve its controls over financial reporting, creating policies and procedures that encourage more accurate reporting of its programs.

**Management response:** *The department response to Finding #1 in the SFY 2020 Commerce Audit is the same response as was made for Finding #2020-001 in the SFY 2020 Statewide Single Audit.*

*Corrective action was taken and ADWS management concurs with the finding.*

*Views of Responsible Officials and Planned Corrective Action:*

- *The State made an attempt to correct the misstatement, but the modification was not made for the correct amount, or to the correct general ledger account. As a result, the correcting entry also caused a \$19,299,223 overstatement of non-operating revenues and a \$72,229,731 overstatement of operating expenses. Accounting staff unintentionally copied the posting templates from employer contributions, instead of other program revenues. To eliminate the risk, the Assistant Controller will review all new templates before posting.*
- *The root cause was breakdowns in communications and the lateness in calculating and posting the payable that caused this receivable. The Controller Unit will develop SOP's to ensure all appropriate entries are posted.*
- *Under normal circumstances, the UI Program Unit uses a prescribed formula to calculate the payable for UI Regular Benefits. That formula is: Average Duration divided by two (2), times compensable claims, times Average Weekly Benefit.*

2020-1 (Continued)

**Management response: (Continued)**

*At the seven (7) day period ending June 30, 2020, ADWS paid 83,088 compensable UI claims. The average weekly benefit amount for the quarter ending June 30, 2020, was \$223.00 and the average claim duration was 8.8 weeks. Using these numbers, the UI Benefits payable at June 30, 2020, equals: \$81,525,946.*

*There are differences in the regular benefits and new programs, such as duration, timing, and the very nature of the program. ADWS reviewed each of the programs for these issues, as well as for trends in the total payouts, and calculated our estimate.*

*Adjusted procedure: Financial management will discuss all programs existing at year end, internally and with the program unit, and develop best estimates, as appropriate that must be approved by both program and fiscal leadership.*

*Anticipated completion date: Complete*

2020-2

Using data analytics, we identified \$986,007 in warrants written from the Department of Commerce to an entity registered with the Secretary of State as a nonprofit corporation that listed the Secretary of Commerce as one of its Directors. Ark. Code Ann. § 21-8-701 requires the Secretary of Commerce, as a public servant, to file a written statement of financial interest that discloses every office or directorship held in any business, corporation, firm, or enterprise subject to jurisdiction of a regulatory agency of the State. Transactions between the Department of Commerce and this nonprofit corporation, under the direction of the Secretary of Commerce, are considered related party transactions under Government Accounting Standards Board (GASB) Cod. Section 2250. While transactions between related parties can occur in the normal course of operations, they must be disclosed in the Notes to the Financial Statements. Our audit revealed the following:

- The statements of financial interest filed by the Secretary of Commerce for calendar years 2019 and 2020 did not disclose his Director position held with the nonprofit corporation.
- The year-end closing book submitted by the Department of Commerce to DFA – Office of Accounting did not disclose any related party transactions, as required by GASB Cod. Section 2205.

Failure to appropriately disclose entity relationships on the statement of financial interest could result in noncompliance with state law, and failure to disclose related party transactions on the year-end closing book could result in misstatement of financial statements.

We recommend the Secretary of Commerce and the Department of Commerce strengthen controls over the appropriate disclosures of entity relationships and related party transactions.

**Management response:** *The Secretary of Commerce has amended his recent written statement of financial interest for calendar year 2020 to include his director position with the nonprofit corporation Arkansas Center for Data Sciences. For future state fiscal years, the Department will implement a process to identify any financial transactions that involve the Cabinet Secretary to allow appropriate disclosures of entity relationships and related party transactions.*

2020-3

Section R1-19-4-2004 of the DFA – Office of Accounting Financial Management Guide states that “the bonded disbursing officer and the public employee with supervisory fiduciary responsibility over all fiscal matters for each state agency, board, commission or institution is responsible for...reporting any losses of state funds to the Chief Fiscal Officer of the State and to the Arkansas Legislative Audit. Losses include...the apparent theft or misappropriation of state funds or property theft.” Arkansas Rehabilitation Services – Division of Workforce Services (ARS-DWS) notified us of six warrants, totaling \$23,500, that were paid to a vendor in June and July 2020 for services that were not provided. A review performed by ARS-DWS management revealed a relationship between the vendor and an Agency employee who potentially falsified documentation on behalf of the vendor. Subsequent to being contacted by the Agency on July 31, 2020, the vendor returned one warrant totaling \$2,000 that had not been cashed. The Agency is actively seeking repayment of the remaining \$21,500.

The employee was terminated, the vendor was deactivated from ARS-DWS’s case-management system, and the Agency has initiated a criminal investigation with the Department of Public Safety – Division of Arkansas State Police.

We recommend the Agency continue to monitor and strengthen controls related to the safeguarding of assets to prevent future occurrences of theft.

**Management response:** *As stated in Legislative Audit’s finding, ARS self-reported potentially unallowable expenses related to the federal Vocational-Rehabilitation grant administered by ARS, as well as efforts toward recovery of the funds in question and corrective actions.*

*ARS continues to actively seek repayment of the remaining \$21,500, through cooperation with the ongoing State Police criminal investigation.*

*Corrective measures to prevent similar occurrences have been instituted, such as manager approval (including a conflict of interest review) before any vendor can be added to the case management system. In addition, managers must approve any expenditures to a Vocational Rehabilitation vendor where three or more payments are requested in a given time period.*

*Manager approval was required under existing policy for any expenditures of \$5,000 or more, and that safeguard will remain in place.*

### **Agency’s Response to Findings**

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

### **Purpose of this Report**

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

ARKANSAS LEGISLATIVE AUDIT



Tom Bullington, CPA  
Deputy Legislative Auditor

Little Rock, Arkansas  
June 29, 2021

DEPARTMENT OF COMMERCE  
BALANCE SHEET – GOVERNMENTAL FUND  
JUNE 30, 2020

Exhibit A

	General Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 291,742,679
Investments	50,185,538
Receivable, net:	
Customer	60,192,240
Interest	656,133
Long term	5,106,360
Other	1,681,654
Due from Fiduciary Fund, net	2,596,405
Due from other state agencies	6,272,192
Due from other governments	6,372,429
Prepaid items	4,655,215
Inventories	126,027
Other assets	6,491,604
	<b>\$ 436,078,476</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	
<b>Liabilities:</b>	
Accounts payable - vendor	\$ 6,091,295
Accrued and other current liabilities	21,503,922
Due to other governments	342,878
Due to other state agencies	13,529,401
Unearned income	2,799,409
Total Liabilities	<b>44,266,905</b>
 <b>Deferred inflows of resources:</b>	
Related to revenues	<b>9,876,995</b>
 <b>Fund balance:</b>	
Nonspendable for:	
Prepaid items	4,655,215
Inventories	126,027
Restricted for:	
Program requirements	4,271,525
Debt service	3,336,672
Other	13,853,596
Committed for:	
Program requirements	67,625,112
Capital projects	1,067,643
Other	230,198,843
Assigned for:	
Capital projects	1,987,656
Other	27,249,477
Unassigned	27,562,810
Total Fund Balance	<b>381,934,576</b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	
	<b>\$ 436,078,476</b>

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

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	General Fund
<b>REVENUES</b>	
Federal grants and reimbursements	\$ 169,374,093
Aviation taxes	9,432,159
Licenses and permits	4,768,016
Bank assessment fees	13,522,677
Insurance Department fees	50,343,471
Insurance assessments and premiums	29,032,116
Miscellaneous	6,223,937
TOTAL REVENUES	282,696,469
Less: State Treasury service charge	1,094,171
NET REVENUES	281,602,298
<b>EXPENDITURES</b>	
Salary and benefits	102,127,169
Communication and transportation of commodities	4,651,780
Printing and advertising	670,921
Repairing and servicing	2,100,657
Utilities and rent	8,191,488
Travel and subsistence	1,793,718
Professional services	23,830,441
Insurance and bonds	14,001,665
Other expenses and services	14,570,805
Commodities, materials, and supplies	5,898,894
Assistance, grants, and aid	218,345,809
Refunds, taxes and claims	39,963,093
Debt service:	
Principal	3,185,000
Interest	7,206,508
Capital outlay	6,551,072
TOTAL EXPENDITURES	453,089,020
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(171,486,722)

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	General Fund
OTHER FINANCING SOURCES (USES)	
Transfers from Proprietary Fund, net	\$ 11,851,914
Interagency transfers in:	
Fund balance transferred in due to Transformation Act	213,168,635
General revenue distribution	46,723,689
Federal grants and reimbursements	131,923,848
Educational excellence funds	13,425,647
General improvement funds	11,069,903
Economic development initiative funds	17,913,252
Amendment 82 bond funds	5,291,828
Work force 2000 development funds	8,663,723
Recycling tax credits	16,000,000
Office of Skills Development funds from Department of Education	22,318,131
Interagency transfers out:	
Federal grants and reimbursements	(37,146,720)
Recycling tax credits to Teacher Retirement	(16,000,000)
Adult basic and general adult education grants	(16,416,570)
Other, net	(6,419,329)
Prior-year refunds to expenditures	1,005,117
Prior-year warrants outlawed and cancelled	123,979
	423,497,047
TOTAL OTHER FINANCING SOURCES (USES)	
	252,010,325
NET CHANGE IN FUND BALANCE	
FUND BALANCE - JULY 1	129,924,251
FUND BALANCE - JUNE 30	\$ 381,934,576

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

DEPARTMENT OF COMMERCE  
STATEMENT OF NET POSITION – PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	Unemployment Insurance
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 671,749,659
Investments	5,000,000
Receivables:	
Accounts, net	39,078,201
Interest	51,082
Due from other state agencies	166,670,149
Due from other governments	347,907,051
Total current assets	1,230,456,142
Noncurrent assets:	
Capital assets - depreciable, net	2,127,778
<b>TOTAL ASSETS</b>	<b>\$ 1,232,583,920</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 395,774,116
Due to other funds	1,251,130
Due to other governments	2,619,772
Unearned revenue	31,781
Total Liabilities	399,676,799
<b>NET POSITION</b>	
Invested in capital assets	2,127,778
Unrestricted	830,779,343
Total Net Position	832,907,121
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,232,583,920</b>

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

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –  
PROPRIETARY FUND  
JUNE 30, 2020

Exhibit D

	Unemployment Insurance
OPERATING REVENUES	
Unemployment taxes	\$ 124,681,055
Other operating revenues	12,546,187
TOTAL OPERATING REVENUES	137,227,242
OPERATING EXPENSES	
Benefit and aid payments	1,757,767,300
Deprecation and amortization	133,333
TOTAL OPERATING EXPENSES	1,757,900,633
OPERATING INCOME	(1,620,673,391)
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	20,142,107
Grants and contributions	1,404,501,366
TOTAL NONOPERATING REVENUES (EXPENSES)	1,424,643,473
INCOME (LOSS) BEFORE TRANSFERS	(196,029,918)
TRANSFERS	
Transfers in	165,000,000
Transfers to General Fund, net	(11,851,914)
TOTAL TRANSFERS	153,148,086
CHANGE IN NET POSITION	(42,881,832)
TOTAL NET POSITION - JULY 1	875,788,953
TOTAL NET POSITION - JUNE 30	\$ 832,907,121

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

DEPARTMENT OF COMMERCE  
STATEMENT OF CASH FLOWS – PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit E

	Unemployment Insurance
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments of benefits	\$ (1,381,802,933)
Unemployment taxes	140,219,669
Other operating receipts (payments)	12,546,188
Net cash provided by (used in) operating activities	(1,229,037,076)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Grants and contributions	1,061,442,063
Transfers in	1,393,640,120
Transfers out	(1,405,492,034)
Net cash provided by (used in) noncapital financing activities	1,049,590,149
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends on investments	20,179,308
Net cash provided by (used in) investing activities	20,179,308
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(159,267,619)
CASH AND CASH EQUIVALENTS - JULY 1	831,017,278
CASH AND CASH EQUIVALENTS - JUNE 30	\$ 671,749,659
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (1,620,673,391)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) in operating activities:	
Depreciation	133,333
Net changes in assets and liabilities:	
Accounts receivable	15,538,615
Accounts payable and other accrued liabilities	375,964,367
Total adjustments	391,636,315
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (1,229,037,076)

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

DEPARTMENT OF COMMERCE  
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS - AGENCY  
JUNE 30, 2020

Exhibit F

	Fiduciary Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,733,850
Investments	500,000
Accrued income	99
Financial assurance instruments	253,901,779
TOTAL ASSETS	\$ 258,135,728
<b>LIABILITIES</b>	
Due to insurance companies	\$ 254,928,941
Due to Life and Health Guaranty Fund	601,233
Due to General Fund	2,596,405
Due to other	9,149
TOTAL LIABILITIES	\$ 258,135,728

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

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit G

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
<b>REVENUES</b>				
Federal grants and reimbursements	\$ 290,196,476	\$ 290,196,476	\$ 169,374,093	\$ (120,822,383)
Aviation taxes	10,970,861	10,970,861	9,432,159	(1,538,702)
Licenses and permits	2,500,000	2,500,000	4,768,016	2,268,016
Bank assessment fees	12,705,521	12,705,521	13,522,677	817,156
Insurance Department fees	36,127,402	36,127,402	50,343,471	14,216,069
Insurance assessments and premiums	36,750,000	36,750,000	29,032,116	(7,717,884)
Miscellaneous	9,001,203	9,001,203	6,223,937	(2,777,266)
<b>TOTAL REVENUES</b>	<b>398,251,463</b>	<b>398,251,463</b>	<b>282,696,469</b>	<b>(115,554,994)</b>
Less: State Treasury service charge			1,094,171	(1,094,171)
<b>NET REVENUES</b>	<b>398,251,463</b>	<b>398,251,463</b>	<b>281,602,298</b>	<b>(116,649,165)</b>
<b>EXPENDITURES</b>				
Regular salaries	81,071,491	80,112,145	71,348,334	8,763,811
Extra help	3,745,000	3,908,811	2,851,040	1,057,771
Personal services matching	27,689,017	28,995,720	26,022,750	2,972,970
Overtime	87,500	1,200,094	928,126	271,968
Operating expenses	35,502,279	63,064,464	29,023,037	34,041,427
Conference fees and travel	1,742,061	1,240,832	661,646	579,186
Professional fees and services	5,991,675	21,217,092	11,554,733	9,662,359
Data processing			30,069	(30,069)
Promotional items	7,500	27,500	10,054	17,446
Assistance, grants, and aids	275,353,297	525,153,454	271,602,897	253,550,557
Unemployment benefits and expenses	465,000,000			
Refunds and reimbursements	12,075,781	11,837,476	9,838,451	1,999,025
Claims	20,300,000	27,500,000	17,621,620	9,878,380
Quick action closing fund	75,000,000	75,000,000		75,000,000
Capital outlay	2,686,001	13,195,565	5,678,272	7,517,293
Investments	1,540,000	1,770,975	200,000	1,570,975
Payments on bond	7,000,000	13,000,000	5,291,828	7,708,172
Loans	2,087,085	2,093,709	49,739	2,043,970
Special maintenance	50,000	50,000	376,424	(326,424)
State contribution	2,555			
Marketing and redistribution proceeds		21,883		21,883
Professional and contract services	19,254,289	369,775		369,775
Arkansas River navigation system	2,000,000	290,996		290,996
Examination travel	20,000			
Cemetery maintenance		50,000		50,000
Travel and subsistence - examinations	100,000			
Healthcare transparency initiative database	3,200,000			
Prepaid funeral benefits	500,000	300,000		300,000
Arkansas multi-agency insurance trust fund	20,000,000	8,000,000		8,000,000
Public school insurance program	20,000,000	9,000,000		9,000,000
Arkansas Health Insurance Marketplace expenses	500,000	500,000		500,000
Arkansas Kidney Disease Commission	850,441			
Storm recovery grants	7,579,614			

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit G

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
EXPENDITURES (continued)				
Field services	\$ 325,000			
Global business initiatives	900,000			
Rural fire protection grants	1,000,000			
Arkansas manufacturing extension network	257,182			
Technology development	156,975			
State strategic plan		\$ 100,000		\$ 100,000
Capital improvement projects	107,000,000	97,717,430		97,717,430
Minority and women-owned business loans	500,000	568,629		568,629
Rural services conference fund	100,000			
Science, technology, engineering, and math education	40,000			
Super projects	200,000,000			
Training allowances	4,000,000			
Workforce development grant expenditures	9,000,000			
Unemployment insurance operating expenses	6,000,000			
TANF / New hire registry	39,879,079	22,897,003		22,897,003
Training trust fund operating expenses	3,256,577			
Annual assessments	26,000			
Excess administration expenditures	10,000,000			
Industry training program		40,000,000		40,000,000
AACET restitution refunds		4,524		4,524
Flood recovery grants	615,710			
EPSCOR track III	400,000	334,400		334,400
Military affairs grant program	750,000			
Seed capital investments	292,653			
Project search	2,438,233			
Small business innovative research	2,000,000			
County fair improvement grants	100,000			
Arkansas acceleration fund program	6,500,000			
Unemployment insurance advance repayment	1			
Industry training program	1,714,800			
State match of federal funds	228,500			
Office of transformation expenses	1,000,000			
<b>TOTAL EXPENDITURES</b>	<b>1,489,416,296</b>	<b>1,049,522,477</b>	<b>\$ 453,089,020</b>	<b>596,433,457</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,091,164,833)</b>	<b>(651,271,014)</b>	<b>(171,486,722)</b>	<b>479,784,292</b>

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit G

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Fund, net	\$ 7,552,000	\$ 7,552,000	\$ 11,851,914	\$ 4,299,914
Interagency transfers in:				
Fund balance transferred in due to				
Transformation Act			213,168,635	213,168,635
General revenue distribution	47,001,253	47,001,253	46,723,689	(277,564)
Federal grants and reimbursements			131,923,848	131,923,848
Educational excellence funds	17,677,690	17,677,690	13,425,647	(4,252,043)
General improvement funds			11,069,903	11,069,903
Economic development initiative funds			17,913,252	17,913,252
Amendment 82 bond funds			5,291,828	5,291,828
Work force 2000 development funds			8,663,723	8,663,723
Recycling tax credits			16,000,000	16,000,000
Office of Skills Development funds				
from Department of Education			22,318,131	22,318,131
Interagency transfers out:				
Federal grants and reimbursements	(35,248,506)	(35,248,506)	(37,146,720)	(1,898,214)
Recycling tax credits to Teacher Retirement			(16,000,000)	(16,000,000)
Adult basic and general adult education grants			(16,416,570)	(16,416,570)
Other, net	3,421,874	3,421,874	(6,419,329)	(9,841,203)
Prior-year refunds to expenditures			1,005,117	1,005,117
Prior-year warrants outlawed and cancelled			123,979	123,979
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,404,311</u>	<u>40,404,311</u>	<u>423,497,047</u>	<u>383,092,736</u>
NET CHANGE IN FUND BALANCE	(1,050,760,522)	(610,866,703)	252,010,325	862,877,028
FUND BALANCE - JULY 1	<u>129,924,251</u>	<u>129,924,251</u>	<u>129,924,251</u>	
FUND BALANCE - JUNE 30	<u>\$ (920,836,271)</u>	<u>\$ (480,942,452)</u>	<u>\$ 381,934,576</u>	<u>\$ 862,877,028</u>

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

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 910 of 2019 created the Department of Commerce by combining the administrative functions of the following state entities:

- The Adult Education Section of the Department of Career Education.
- The Arkansas Deaf and Hearing Impaired Telecommunications Service Corporation.
- The Arkansas Department of Aeronautics.
- The Arkansas Development Finance Authority (a component unit of the Agency).
- The Arkansas Economic Development Commission.
- The Arkansas Economic Development Council.
- The Arkansas Housing Trust Fund Advisory Committee.
- Arkansas Rehabilitation Services.
- The Arkansas Rural Development Commission.
- The Arkansas Waterways Commission.
- The Arkansas Wine Producers Council.
- The Arkansas Workforce Development Board.
- The Board of Review.
- The Board of the Division of State Services for the Blind.
- The Career Education and Workforce Development Board.
- The Department of Workforce Services.
- The Division of Minority and Women-Owned Business Enterprise of the Arkansas Economic Development Commission.
- The Division of Science and Technology of the Arkansas Economic Development Commission.
- The Division of State Services for the Blind.
- The Governor's Commission on People with Disabilities.
- The Office of Skills Development.
- The State Bank Department.
- The State Banking Board.
- The State Board of Embalmers, Funeral Directors, Cemeteries, and Burial Services.
- The State Insurance Department.
- The State Securities Department.

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(s) within this classification that are included in this financial report and a summary of the activity therein are as follows:

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Fund Accounting (Continued)

Proprietary Funds (Continued)

Unemployment Insurance Fund – This fund accounts for the Unemployment Insurance Program administered by the Agency, which includes contributions received from employers, federal grants related to the pandemic, and benefits paid to eligible unemployed individuals.

Fiduciary Funds

Trust and Agency Funds – Trust and Agency 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 Agency Funds. The specific activity accounted for at this Agency includes the following:

Agency funds account for assets held by the Agency as a custodial agent for insurance companies that are required to have a security deposit on hand in the State, as set out in Ark. Code Ann. § 23-63-205, and for insolvent insurance companies who are in receivership.

C. Basis of Accounting

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

D. Cash and Cash Equivalents

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

E. Deposits and Investments

State Board of Finance Policies

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

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.

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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

Deposits

Deposits are carried at cost and consist of cash in bank, cash in United States Treasury, cash in State Treasury, and certificates of deposit totaling \$21,405,525, \$672,544,556, \$271,135,593, and \$44,410,000, 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, 2020, none of the Agency's bank balance of \$26,151,130 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, 2020:

<u>Investment Type</u>	<u>Valuation Method</u>	<u>Amount</u>
General fund		
Negotiable certificates of deposit	Level 1	\$ 2,001,915
U.S. government agencies	Level 1	740,541
U.S. treasuries	Level 1	<u>7,884,020</u>
Total		<u>\$ 10,626,476</u>

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

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

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

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

As of June 30, 2020, 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
General Fund					
Negotiable certificates of deposit	\$ 2,001,915	\$ 1,500,923	\$ 500,992		
U.S. government agencies	740,541				\$ 740,541
U.S. treasuries	7,884,020	7,884,020			
Total	<u>\$ 10,626,476</u>	<u>\$ 9,384,943</u>	<u>\$ 500,992</u>		<u>\$ 740,541</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 12% of the Agency’s investment maturities are one year or longer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency’s exposure to credit risk as of June 30, 2020, is as follows:

Rating	Fair Value
General fund	
AA+	\$ 7,884,020
Unrated	2,742,456
Total	<u>\$ 10,626,476</u>

DEPARTMENT OF COMMERCE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or 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 investments may not be returned. As of June 30, 2020, none of the Agency's investment balance of \$10,626,476 was exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. The Agency places no limit on the amount it may invest in any one issuer. As of June 30, 2020, the Agency has the following investments that represent more than 5% of net investments, excluding the State Treasury Money Management Trust Fund and investments that are fully insured or collateralized such as certificates of deposit:

Negotiable certificates of deposit	19%
U.S. government agencies	7%
U.S. treasuries	74%

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

F. 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, 2020, was as follows:

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Beginning Balance	Additions due to Transformation	Additions	Retirements	Ending Balance
Governmental activities:					
Land		\$ 149,076			\$ 149,076
Improvements		2,408			2,408
Buildings	\$ 186,607	33,422,613	\$ 4,613,433	\$ 195,784	38,026,869
Equipment	951,857	11,868,855	1,595,841	1,442,751	12,973,802
Infrastructure		21,982			21,982
Construction in progress		1,053,584	817,077	57,181	1,813,480
Other capital assets		19,499,380		4,012	19,495,368
Total governmental activities	<u>\$ 1,138,464</u>	<u>\$ 66,017,898</u>	<u>\$ 7,026,351</u>	<u>\$ 1,699,728</u>	<u>\$ 72,482,985</u>
Proprietary activities:					
Capital assets, being depreciated:					
Buildings	\$ 4,000,000				\$ 4,000,000
Equipment	15,124				15,124
Total capital assets, being depreciated	<u>4,015,124</u>				<u>4,015,124</u>
Less accumulated depreciation for:					
Buildings	(1,738,889)		\$ (133,333)		(1,872,222)
Equipment	(15,124)				(15,124)
Total accumulated depreciation	<u>(1,754,013)</u>		<u>(133,333)</u>		<u>(1,887,346)</u>
Total proprietary activities, net	<u>\$ 2,261,111</u>		<u>\$ (133,333)</u>		<u>\$ 2,127,778</u>

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."

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

J. Accounts Receivable

The Agency records amounts receivable in the General Fund at net realizable amounts from defendants, companies, clients, and previous employees. The Agency provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information, and existing economic conditions. As of June 30, 2020, the allowances were as follows:

Type of Receivable	Allowance Amount June 30, 2020
Court-ordered restitution on fidelity bonds	\$ 2,419,923
Premium taxes from insurance companies	589,111
Community development block grant loans	4,169,081
Small business loan program	15,750
Revenue bond guaranty notes	5,626,141
Quick action closing loans	600,000
Quick action closing reimbursements	176,547
Science and technology commercialization loans	7,612,699
Alternative finance program - technology equipment loans	390,539
Employee student loan forgiveness program	16,000
Total	\$ 21,615,791

The Agency records amounts receivable related to the Unemployment Insurance Program of the Proprietary Fund at net realizable amounts from employers, program participants, and other governmental entities. The Agency provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information, and existing economic conditions. As of June 30, 2020, the allowance was \$73,828,879.

The Agency records amounts receivable in Fiduciary Funds at net realizable amounts from insolvent insurance companies in receivership. The Agency provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information, and existing economic conditions. As of June 30, 2020, the allowance was \$34,214,103.

K. Accounts Payable

The Agency reports accounts payable related to the Unemployment Insurance Program of the Proprietary Fund at June 30, 2020, in the amount of \$395,774,116. This balance consisted of \$384,616,342 in estimated unemployment claims and \$11,157,774 in employer contribution credits.

L. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

M. 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.

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

M. Fund Equity (Continued)

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 these amounts 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.

N. 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.

O. Professional Services Contracts Commitments

At June 30, 2020, the Agency had commitments of approximately \$81,840,669 for professional services contracts.

NOTE 2: Capital Lease Receivables

In February 2009, a capital lease receivable was entered into with the Arkansas Development Finance Authority (ADFA), a discretely presented component unit of the State, and the Arkansas Economic Development Commission (AEDC), a division of the Arkansas Department of Commerce, as lessors, and Victory Lumber, LLC, as lessee. The capital lease expires February 29, 2024, and bears no interest rate. The original amount of the lease was \$927,000, which includes buildings as well as all movable property, fixtures, furniture and equipment located on the premises. In December 2012, another capital lease receivable was entered into with AEDC, as lessor, and Fiberglass Fabricators, Inc., as lessee. The capital lease expires December 1, 2022, and bears an interest rate of 5.00%. The original amount of the lease was \$250,000, which includes buildings, structures, and other improvements located on the premises. There are no contingent rentals or unearned income on either lease at June 30, 2020.

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 2: Capital Lease Receivables (Continued)

Future amounts to be received as of June 30, 2020, are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 93,906	\$ 2,995	\$ 96,901
2022	95,285	1,617	96,902
2023	80,911	234	81,145
2024	48,783		48,783
Total	<u>\$ 318,885</u>	<u>\$ 4,846</u>	<u>\$ 323,731</u>

NOTE 3: 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, 2020, were as follows:

<u>Operating Leases</u>	
<u>Years Ending June 30,</u>	<u>Governmental Activities</u>
2021	\$ 4,900,448
2022	1,878,592
2023	1,075,645
2024	287,917
2025	194,170
2026-2030	475,931
2031-2035	62,439
2036-2040	5
2041-2045	5
2046-2050	5
Total Minimum Lease Payments	<u>\$ 8,875,157</u>
Total Lease Expenditures (2020)	<u>\$ 6,979,617</u>

NOTE 4: Subsequent Event – Effects of Coronavirus Disease 2019

In March 2020, the federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act provided emergency assistance and health care response for certain individuals, families, and businesses affected by the COVID-19 pandemic. The Unemployment Insurance (UI) program was facing an unprecedented demand due to the economic effects of COVID-19, which prompted the authorization of new federally-funded programs for workers. Pandemic Unemployment Assistance (PUA) covered individuals who were self-employed, who were seeking part-time employment, or who otherwise would not have qualified for regular Unemployment Compensation (UC) under state or federal law. Pandemic Emergency Unemployment Compensation (PEUC) covered individuals who had exhausted all rights to regular UC. Federal Pandemic Unemployment Compensation (FPUC) provided an additional \$600 per week to individuals who were collecting regular UC, PEUC, PUA, and other benefits. The CARES Act authorized PUA and PEUC for weeks of unemployment ending on or before December 31, 2020, and FPUC for weeks of unemployment ending on or before July 31, 2020. The financial impact of COVID-19 on the Department of Commerce is uncertain.

DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 5: Related Party Transactions

Arkansas Center for Data Sciences (ACDS) is a nonprofit corporation with whom the Agency has partnered with the purpose of expanding opportunities for apprenticeships in the information technology sector. Secretary of Commerce, Mike Preston, is also a Director of Arkansas for Data Sciences. In fiscal year 2020, the Agency made three payments to ACDS totaling \$986,007 for reimbursement requests submitted for the apprenticeship program.

DEPARTMENT OF COMMERCE  
SCHEDULE OF SELECTED INFORMATION  
JUNE 30, 2020  
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2020	2019	2018	2017	2016
<b>General Fund</b>					
Total Assets	\$ 436,078,476	\$ 144,573,188	\$ 119,963,403	\$ 186,719,009	\$ 183,043,974
Total Liabilities	44,266,905	444,712,622	383,686,909	413,512,364	238,885,401
Total Deferred Inflows of Resources	9,876,995				
Total Fund Equity	381,934,576				
Net Revenues	281,602,298	32,254,735	26,215,816	24,948,880	28,544,234
Total Expenditures	453,089,020	95,359,766	119,388,489	262,775,027	87,445,061
Total Other Financing Sources (Uses)	423,497,047	89,915,199	56,323,905	67,253,841	63,981,092
<b>Proprietary Fund</b>					
For the Year Ended June 30,					
	2020	2019	2018	2017	2016
Total Assets	\$ 1,232,583,920	\$ 896,818,581	\$ 792,104,621	\$ 704,981,183	\$ 591,613,836
Total Liabilities	399,676,799	21,029,628	23,465,995	28,008,948	34,028,384
Total Net Position	832,907,121	875,788,953	768,638,626	676,972,235	557,585,452
Total Operating Revenues	137,227,242	193,160,881	207,522,140	251,517,448	310,126,511
Total Operating Expenses	1,757,900,633	100,295,901	130,894,902	147,060,836	216,398,411
Net Nonoperating Revenues	1,424,643,473	21,573,714	22,550,553	22,894,858	22,878,680
Total Transfers In (Out), Net	153,148,086	(7,288,367)	(7,511,400)	(7,964,687)	(8,380,363)
<b>Fiduciary Funds</b>					
For the Year Ended June 30,					
	2020	2019	2018	2017	2016
Total Assets	\$ 258,135,728	\$ 242,827,415	\$ 231,879,648	\$ 238,816,180	\$ 256,297,965
Total Liabilities	258,135,728	242,827,415	231,879,648	238,816,180	256,297,965

Arkansas Economic Development Commission (AEDC) information was used for the first four years of the General Fund schedule.

Department of Workforce Services (DWS) information was used for the first four years of the Proprietary Fund schedule.

State Insurance Department information was used for the first four years of the Fiduciary Fund schedule.

Information for Arkansas Development Finance Authority (ADFA) is provided in Schedules 3, 4, and 5.

DEPARTMENT OF COMMERCE  
 FINANCIAL INFORMATION BY BUSINESS AREA  
 FOR THE YEAR ENDED JUNE 30, 2020  
 (UNAUDITED)

Schedule 2

Board/Commission/Division	Business Area	Assets	Liabilities & Deferred Inflows	Fund Balance	Revenues	Expenditures	Other Financing Sources/(Uses)
Arkansas Burial Association Board	0215		\$ 15	\$ (15)			\$ (5)
Arkansas Cemetery Board	0218				\$ 3		(239)
State Board of Embalmers and Funeral Directors	0233						(23)
Arkansas Waterways Commission	0341	\$ 2,750,214	312,889	2,437,325	2,495,812	\$ 1,852,933	434,345
Arkansas Department of Aeronautics	0402	10,269,937	85,093	10,184,844	9,160,146	8,019,609	(212,719)
State Bank Department	0405	21,889,965	356,797	21,533,168	13,317,422	8,900,470	14,371
State Securities Department	0410	4,526,928	1,700,877	2,826,051	4,773,115	3,407,268	(2,252,511)
State Insurance Department	0425	182,395,926	11,427,790	170,968,136	81,450,901	61,748,750	(1,515,213)
Rehabilitation Services	0520	4,583,994	1,768,979	2,815,015	34,285,660	48,500,528	13,481,505
Arkansas Economic Development Commission	0790	135,331,388	17,268,327	118,063,061	11,473,010	199,825,835	176,491,635
Division of Workforce Services	0810	41,643,958	20,610,139	21,033,819	123,871,848	115,079,436	(13,165,716)
Department of Commerce	9902	32,686,166	612,994	32,073,172	774,381	5,754,191	250,221,617
<b>Totals</b>		<b>\$ 436,078,476</b>	<b>\$ 54,143,900</b>	<b>\$ 381,934,576</b>	<b>\$ 281,602,298</b>	<b>\$ 453,089,020</b>	<b>\$ 423,497,047</b>

Information for Arkansas Development Finance Authority (ADFA) is provided in Schedules 3, 4, and 5.

DEPARTMENT OF COMMERCE  
STATEMENT OF NET POSITION – ADFA  
JUNE 30, 2020  
(UNAUDITED)  
(EXPRESSED IN THOUSANDS)

Schedule 3

	Authority	Component Unit
<b>ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>		
Current assets:		
Cash and cash equivalents	\$ 149,515	\$ 3,293
Accrued interest receivable	8,137	1
Accounts receivable	1,269	109
Current portion of:		
Investments	1,054	
Loans	3,592	344
Total current assets	163,567	3,747
Noncurrent assets:		
Investments:		
Unrestricted	31,779	
Restricted	165,041	29,055
Loans, net of allowance for loan losses of \$77,871	435,170	283
Loans to component unit	22,227	
Direct financing leases - restricted	128,031	
Real estate owned	3,666	
Capital assets, net	5,006	
Other assets	26,068	
Total noncurrent assets	816,988	29,338
Total assets	980,555	33,085
Deferred outflow of resources:		
Deferred charge on refunding	2,573	
OPEB difference in expected versus actual experience	13	
Changes in OPEB actuarial assumptions and proportions	922	
Pension contributions	508	
Pension differences in expected versus actual experience	117	
Changes in pension actuarial assumptions	234	
Total deferred outflow of resources	4,367	
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ 984,922</b>	<b>\$ 33,085</b>

DEPARTMENT OF COMMERCE  
STATEMENT OF NET POSITION – ADFA  
JUNE 30, 2020  
(UNAUDITED)  
(EXPRESSED IN THOUSANDS)

Schedule 3

	Authority	Component Unit
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	\$ 1,070	\$ 6
Accrued interest payable	2,720	156
Unearned fees	1,134	
Contract obligations	3,667	
Deposits against financing arrangements	46	
Deferred gain on refinancing sale of asset	28	88
Current portion of bonds and notes payable	27,556	
OPEB and pension liabilities	105	
Total current liabilities	36,326	250
Noncurrent liabilities:		
Unearned fees	4,373	
Contract obligations	1,611	
Bonds and notes payable, net of unamortized premiums and discounts and current portion	468,325	22,164
Deposits against financing arrangements	28,211	
Deferred gain on refinancing sale of asset	91	7
OPEB and pension liabilities	8,365	
Other liabilities	345	
Total noncurrent liabilities	511,321	22,171
Total Liabilities	547,647	22,421
Deferred inflow of resources:		
OPEB difference in expected versus actual experience	95	
Changes in OPEB actuarial assumptions and proportions	663	
Pension difference in expected versus actual experience	39	
Changes in pensions actuarial assumptions	166	
Changes in employer pension contribution and share of contributions	284	
Total deferred inflow of resources	1,247	
Net position:		
Invested in capital assets	5,006	
Restricted expendable by bond resolution and programs	295,668	10,485
Restricted, nonexpendable and minority interest		179
Unrestricted	135,354	
Total Net Position	436,028	10,664
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION</b>	<b>\$ 984,922</b>	<b>\$ 33,085</b>

Arkansas Development Finance Authority (ADFA) is a component unit of the Department of Commerce. Component units are only included on government-wide financials. This financial statement is presented as Other Information and is unaudited.

DEPARTMENT OF COMMERCE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –  
ADFA  
FOR THE YEAR ENDED JUNE 30, 2020  
(UNAUDITED)  
(EXPRESSED IN THOUSANDS)

Schedule 4

	Authority	Component Unit
<b>OPERATING REVENUES</b>		
Investment income		
Interest and dividends	\$ 10,138	\$ (208)
Loans and direct financing leases	21,719	15
Amortization of discounts on loans	3	
Financing fees	6,303	
Net appreciation of investments	4,286	
Total investment income	42,449	(193)
Other income	243	
<b>TOTAL OPERATING REVENUES</b>	<b>42,692</b>	<b>(193)</b>
<b>OPERATING EXPENSES</b>		
Interest and amortization on bonds and notes	18,815	826
Administrative expenses:		
Recovery for loan losses	(663)	
Federal financial assistance programs	5,732	
Loan servicing and other contractual services	992	
Special allowance	1,538	
Salaries and benefits	4,930	
Operations and maintenance	1,493	
Other	1,770	286
Total administrative expenses	15,792	286
<b>TOTAL OPERATING EXPENSES</b>	<b>34,607</b>	<b>1,112</b>
<b>OPERATING INCOME (LOSS)</b>	<b>8,085</b>	<b>(1,305)</b>
<b>NON-OPERATING REVENUES</b>		
Federal grants	13,771	
<b>INCOME (LOSS) BEFORE TRANSFERS IN</b>	<b>21,856</b>	<b>(1,305)</b>
<b>TRANSFERS IN</b>	<b>7,704</b>	<b>25</b>
<b>CHANGE IN NET POSITION (DEFICIT)</b>	<b>29,560</b>	<b>(1,280)</b>
<b>TOTAL NET POSITION - JULY 1</b>	<b>406,468</b>	<b>11,975</b>
<b>DISTRIBUTIONS TO MEMBER</b>		<b>(31)</b>
<b>TOTAL NET POSITION - JUNE 30</b>	<b>\$ 436,028</b>	<b>\$ 10,664</b>

Arkansas Development Finance Authority (ADFA) is a component unit of the Department of Commerce. Component units are only included on government-wide financial statements. This financial statement is presented as Other Information and is unaudited.

DEPARTMENT OF COMMERCE  
STATEMENT OF CASH FLOWS - ADFA  
FOR THE YEAR ENDED JUNE 30, 2020  
(UNAUDITED)  
(EXPRESSED IN THOUSANDS)

Schedule 5

	Authority
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Financing fee income received	\$ 5,597
Other received	213
Cash paid to employees	(3,366)
Special allowance paid	(1,743)
Cash received for loan servicing and default management	220
Cash paid for program administration	(9,331)
Net cash provided by (used by) operating activities	(8,410)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from issuance of bonds and notes payable	42,007
Repayments of bonds and notes payable	(116,805)
Cash paid for interest	(16,121)
Collection of financing fees	192
Nonoperating revenues received	13,771
Transfers, net	6,856
Net cash provided by (used by) noncapital financing activities	(70,100)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(10,013)
Maturities of investments	56,128
Interest received on investments	10,531
Interest received on loans	16,964
Principal repayments on loans	37,088
Principal repayments on capital leases	10,686
Loan disbursements	(28,398)
Direct financing lease disbursements	(10,928)
Cash received for financing arrangements	2,626
Proceeds from sale of real estate owned	74
Purchase of capital assets	(131)
Net cash provided by (used by) investing activities	84,627
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,117</b>
<b>CASH AND CASH EQUIVALENTS - JULY 1</b>	<b>143,398</b>
<b>CASH AND CASH EQUIVALENTS - JUNE 30</b>	<b>\$ 149,515</b>

DEPARTMENT OF COMMERCE  
STATEMENT OF CASH FLOWS - ADFA  
FOR THE YEAR ENDED JUNE 30, 2020  
(UNAUDITED)  
(EXPRESSED IN THOUSANDS)

Schedule 5

		Authority
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED		
BY OPERATING ACTIVITIES		
Operating income (loss)	\$	8,085
Adjustments to reconcile operating income of changes in net		
assets to net cash used by operating activities		
Amortization of discounts on loans		1
Accreted deferred financing fees		(352)
Accreted interest on loans		(3,502)
Accreted interest on bonds		3,502
Amortization of bond and note premiums		(6)
Amortization of bond and note refunding discounts		166
Depreciation of capital assets		805
Recovery for loan losses		(663)
Net appreciation of investments		(4,286)
Interest and dividends on investments		(10,138)
Interest on loans		(18,169)
Interest paid on bonds and notes		15,171
Changes in operating assets and liabilities:		
Accounts receivable		175
Other assets		(717)
Accounts payable		427
Other liabilities		1,091
		1,091
 NET CASH PROVIDED BY (USED BY)		
OPERATING ACTIVITIES	\$	(8,410)

Arkansas Development Finance Authority (ADFA) is a component unit of the Department of Commerce. Component units are only included on government-wide financials. This financial statement is presented as Other Information and is unaudited.

DEPARTMENT OF COMMERCE  
OTHER GENERAL INFORMATION  
JUNE 30, 2020  
(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 year ended June 30, 2020, was \$11,189,255, equal to the required contributions for the year.

B. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – 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 Comprehensive Annual Financial Report, 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, 1509 West Seventh Street, Suite 403, Little Rock, Arkansas 72201 or by calling 501-682-1675.

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

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed \$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.

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.

DEPARTMENT OF COMMERCE  
OTHER GENERAL INFORMATION  
JUNE 30, 2020  
(UNAUDITED)

C. Compensated Absences – Employee Leave (Continued)

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, 2020, amounted to \$7,647,227.

D. Recycling Tax Credit

The Waste Reduction and Recycling Equipment Credit is authorized under Ark. Code Ann. § 26-51-506. Act 748 of 1991, as amended by Act 654 of 1993, authorizes an income tax credit equal to 30% of the cost of waste reduction, reuse or recycling equipment, including the cost of installation of such machinery and equipment. The credit used for a taxable year may not exceed the individual or corporation income tax due. Any unused credit may be carried over for a maximum of three consecutive years, unless the business is a qualified steel mill that has invested more than \$200.0 million and then the carry forward period is 14 years. In fiscal year 2017, Arkansas Teacher Retirement System (ATRS), an investor in Big River Steel, negotiated an agreement with the State and Big River Steel. This agreement allowed ATRS to purchase the tax credits totaling \$300.0 million from Big River Steel for \$161.8 million and sell them back to the State at the rate of \$20.0 million in tax credits per year at a discounted price of \$16.0 million. As a result of this agreement, which was incorporated into State law, the State considers this a structured payout and has used a discount rate of 3.25% to record an obligation of \$187.6 million to ATRS as of the agreement date.

	Principal	Interest	Total
Current year obligation:			
Year ended June 30, 2020	\$ 10,900,320	\$ 5,099,680	\$ 16,000,000

Future amounts required to pay principal and interest on the recycling tax credit obligation at June 30, 2020, were as follows:

Year ending June 30:	Principal	Interest	Total
2021	\$ 11,254,581	\$ 4,745,419	\$ 16,000,000
2022	11,620,355	4,379,645	16,000,000
2023	11,998,016	4,001,984	16,000,000
2024	12,387,952	3,612,048	16,000,000
2025	12,790,560	3,209,440	16,000,000
2026-2030	70,465,071	9,534,929	80,000,000
2031	15,496,368	503,632	16,000,000
Total	\$ 146,012,903	\$ 29,987,097	\$ 176,000,000

E. Create Rebate Program

The Create Rebate Program is authorized by the Consolidated Incentives Act of 2003 (Ark. Code Ann. §§ 15-4-2701 – 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, a company is required to maintain a minimum payroll of \$2.0 million annually for new, full-time permanent employees and file a claim with DFA. No claims may be filed until the minimum annual payroll of \$2.0 million is met. The threshold must be met within 24 months of inception of the agreement. The Agency has accrued liabilities in the approximate amount of \$250.7 million 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:

DEPARTMENT OF COMMERCE  
OTHER GENERAL INFORMATION  
JUNE 30, 2020  
(UNAUDITED)

E. Create Rebate Program (Continued)

	2020	2019
Create Rebate business incentives, beginning of year	\$ 226,211,489	\$ 150,208,200
Incurring Create Rebate business incentives, net of allowance	42,366,845	87,474,173
Create Rebate business incentives payments/dismissals	(17,833,786)	(11,470,884)
Create Rebate business incentives, end of year	\$ 250,744,548	\$ 226,211,489
Current Create Rebate business incentives	\$ 12,889,191	\$ 11,600,352
Noncurrent Create Rebate business incentives	237,855,357	214,611,137

F. General Obligation Amendment 82 Bonds

Amendment 82 to the State Constitution was approved by a vote of the people in 2004 and modified by Amendment 90, which was also approved by a vote of the people in 2010. The amendment authorized the issuance of general obligation bonds for the purpose of financing the costs of infrastructure or other needs to attract large economic development projects. All bonds issued under this authority are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The amendment limits the bonds to be issued to an amount up to 5% of state general revenues collected during the most recent year. The 2014 series, the first issuance under this authority, is for a total of \$125.0 million to provide \$70.0 million in infrastructure improvements, \$50.0 million in a loan, and \$5.0 million for issuance costs. No bonds were issued under this act in the 2020 fiscal year. As of June 30, 2020, the future principal and interest payments remaining are as follows:

2014A Series			
Year Ended June 30,	Principal	Interest	Total
2021	\$ 3,255,000	\$ 2,029,105	\$ 5,284,105
2022	3,340,000	1,944,312	5,284,312
2023	3,435,000	1,849,623	5,284,623
2024	3,540,000	1,745,577	5,285,577
2025	3,650,000	1,634,810	5,284,810
2026-2030	20,220,000	6,208,376	26,428,376
2031-2034	19,140,000	2,006,785	21,146,785
Total	\$ 56,580,000	\$ 17,418,588	\$ 73,998,588