DEPARTMENT OF CORRECTIONS

Annual Financial Report

June 30, 2020

LEGISLATIVE JOINT AUDITING COMMITTEE

DEPARTMENT OF CORRECTIONS
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Sen. Ronald Caldwell
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Sen. Gary Stubblefield
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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 Corrections
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Department of Corrections, 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 Corrections' 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 the major fund and the aggregate remaining fund information of the Department of Corrections as of June 30, 2020, the changes in financial position, and the 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 Corrections are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of Corrections. 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 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 Corrections 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 Corrections individually. Our opinions 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 opinions on the financial statements that collectively comprise the Department of Corrections' 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 July 19, 2021, on our consideration of the Department of Corrections' 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 Corrections' 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 Corrections' internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

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

Little Rock, Arkansas
July 19, 2021
SAC990320

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

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 Corrections
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund and the aggregate remaining fund information of the Department of Corrections (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 Corrections' departmental financial statements, and have issued our report thereon dated July 19, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses below as items 2020-1, 2020-2, and 2020-3, that we consider to be significant deficiencies.

Compliance and Other Matters

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

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SCHEDULE OF FINDINGS AND RESPONSES

2020-1 In accordance with Ark. Code Ann. § 25-1-124, the Agency reported to Arkansas Legislative Audit a misappropriation of property at the Division of Correction's Central Armory involving ammunition and a firearm. The Department of Corrections – Internal Affairs investigated the allegation and determined that an employee of the Central Armory was selling ammunition purchased by the Department of Corrections, with the majority of ammunition sold coming from the Grimes Unit. Additionally, when the same employee was questioned by Internal Affairs, the employee returned a Division of Correction firearm that was shown to be deactivated in AASIS and had the Division of Correction in-house inventory number changed.

In January 2017, the Grimes Unit transferred 34,175 rounds of ammunition to the Central Armory as it was no longer needed, and from there it was scheduled to be moved to the Department of Transformation and Shared Services – Marketing and Redistribution (M&R) for disposal. However, M&R did not receive the ammunition. Based on an Internal Affairs investigation, 28,352 rounds transferred by the Grimes Unit, with an estimated cost of $8,789, could not be accounted for.

During an in-house inventory of firearms at the Wrightsville Unit in April 2021, a weapon was found that was deactivated in AASIS. Central Armory staff were informed, and they instructed Wrightsville Unit staff to return the deactivated item so that the Armory could issue a new firearm. During follow-up procedures, Internal Affairs could not locate a transfer form for the deactivated firearm that showed it being received at the Central Armory. The firearm was returned to Internal Affairs by the same Central Armory employee that allegedly sold the ammunition with an altered Division of Correction inventory number.

Internal Affairs has provided all information to the Arkansas State Police, which has opened a criminal investigation.

We recommend Agency management implement internal controls to ensure that at all times there is an accurate accounting of items received by and issued from the Central Armory.

2020-2 In accordance with Ark. Code Ann. § 25-1-124, the Agency reported to Arkansas Legislative Audit that an employee had received an unauthorized salary increase, which resulted in an overpayment of wages totaling $4,676. A management-level employee within the Division of Correction instructed human resource staff that the employee had received a salary increase. The increase was input into AASIS by staff without any documentation from someone with authority to approve the change.

We recommend Agency management strengthen internal controls to ensure that increases in wages are only input based on documentation received directly from management or others with authority to approve changes.

2020-3 The State Financial Management Guide's rule R4-19-4-501 provides agencies a framework to assist in designing an adequate internal control structure around cash receipts. Some of the requirements include the following: Duties should be properly segregated so that no one person is collecting, recording, depositing, and reconciling cash receipts; checks received through the mail should be numbered, and marked or endorsed as soon as possible; for cash received in person, a pre-numbered receipt should be issued, at a minimum, in duplicate with the original receipt given to the party making payment and one duplicate maintained in the receipt book; and any cash receipt transactions voided in AASIS must be reviewed by a supervisor weekly. We designed tests to determine the Agency's compliance with this rule and noted the following exceptions.

- Daily deposit activity for 30 days was tested from the inmate banking unit of the Division of Community Correction. We noted four days that did not include a listing of checks received for that day; four days that included the check listing but did not indicate who performed the procedure, which limited our ability to verify proper segregation of duties; and three days that did not have proper segregation of duties, as the same individual received and recorded the day's activity.

- Management could not provide documentation of supervisory review and approval of any cash receipt transactions voided in the State's accounting system during the fiscal year.

- Six receipts from the pre-numbered receipt books maintained by the Division of Correction's North Central Unit were missing the original or one of the duplicate copies of the voided receipt.

2020-3 (Continued)

By not complying with the State's financial management guide and ensuring that internal controls over cash receipts are operating effectively, improper accounting and other errors could occur.

We recommend Agency management review R4-19-4-501 of the State Financial Management Guide, establish procedures to comply with the rule, and ensure internal controls over cash receipts are operating effectively.

Management personnel responded as follows:

2020-1 Division of Correction Director Dexter Payne met with Internal Affairs Administrator Raymond Naylor and Internal Auditor April Davis to develop internal controls that will assist with tracking and reporting of the inventory at the Central Armory. The following recommendations will be implemented:

a. Utilize QuickBooks for logging and tracking the purchasing and distribution of all ammunition to all of the units from the Central Armory;

b. Internal Audit will be responsible for an annual equipment sighting for the Central Armory, K9 Division, and Radio Shop;

c. Require the Central Armory Armorer to report all Equipment Transfer Forms and Disposal of Equipment Forms to Internal Audit. Internal Audit will be responsible for making all changes in AASIS for the Central Amory, K9 Division, and Radio Shop;

d. Require a year-end inventory audit to be conducted by Internal Audit of all weapons and ammunition stored at the Central Armory; and

e. The Unit's Business Manager will be required to conduct an annual inventory of their Unit's armory and report their findings to Internal Audit.

2020-2 The Department of Corrections Internal Audit recommended the following internal controls:

a. If a promotion is granted and the increase in pay exceeds the 10% increase or the position's entry level pay, signed documentation of approval must be received from the Secretary or the Division's Director.

b. HR Administrator promotions or demotions should have supporting documentation which contains approval from the Secretary and not an employee under the Human Resources (HR) Administrator's supervision.

c. HR Administrators have an extensive role in AASIS, and it is merely impossible to place limits on their roles. An individual outside of the HR Administrator's supervision should periodically review changes he/she makes in AASIS.

d. The Internal Audit Section will run a Payroll Comparison report on a quarterly basis per Secretary Solomon Graves. This report will allow the Department to identify and research variances between payrolls.

2020-3 The Department of Corrections Chief Fiscal Officer (CFO) and the Internal Audit section recommend the following actions in order to increase internal controls related to cash receipts.

a. In regard to ACC inmate banking:
   i. Payments will be received at a department-owned post office box, unless received at the headquarters payment window.
   ii. Payments [Money orders/Cashier checks] will be picked up by the designated staff each morning.
   iii. Whoever picks up mail will open and distribute between the other processors/or employees.
   iv. All mail will be opened, sorted, and stamped "For Deposit only."
   v. The tape total will be run for each batch receipt to verify amounts before they are distributed or exchange to another processors.
   vi. Payments will be entered into eOMIS (electronic offender management information system) to record the receipts in each offender's account

Management personnel responded as follows: (Continued)

2020-3 (Continued)

vii. All items deemed “Unspecified “(unable to determine an account to process into) will be copied and researched.

viii. All money orders and other receipts will be stored (in a locked safe) overnight pending an update in eOMIS for deposit the following day.

ix. Totals will be balanced with the Daily Distribution report and Deposit Register from eOMIS.

x. Money will be taken to Simmons Bank to be deposit in the ACC account.

b. When voiding cash receipts transactions,

i. Per R4-l 9-4-501, voided transactions are to be approved and initialed by the (Accounting) supervisor.

ii. A ZCAJO Cash Journal report is to be ran on a weekly basis and deleted documents are to be initialed by the supervisor.

iii. These documents will be retained by Accounting Control.

c. In dealing with pre-numbered receipt book

i. Each receipt of money is to be evidenced by the issuance of a serially pre-numbered receipt.

ii. Assignment of responsibility for issuance of receipts is to be done to preclude the same individual having control on the money from time of receipt until deposit is accomplished.

ii. The original receipt shall be given to the party making payment.

iii. One duplicate copy of the receipt shall be maintained in numerical order in the receipt book.

iv. Additional copies of the receipt may be used for any purpose the Agency deems fit.

v. All cash receipts must be balanced daily.

vi. All voided transactions are to be approved and initialed by the Warden and/or appointee.

Agency’s Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
July 19, 2021

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

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	$ 69,385,691
Funds held in trust by Arkansas Development Finance Authority	18,971,924
Certificates of deposit	4,273,285
Memberships in cooperative organizations	1,955,812
Accounts receivable, net	1,639,996
Due from other state agencies	1,439,257
Due from other governments	123,480
Due from other funds	28,022
Prepaid items	830,994
Inventories	13,897,213
TOTAL ASSETS	$ 112,545,674
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	11,924,717
Accrued payroll	12,766,502
Due to other state agencies	21,173,833
Due to other governments	3,273,993
Unearned revenues	31,530
Total Liabilities	49,170,575
Deferred inflows of resources:	
Related to revenues	1,551,109
Fund balance:	
Nonspendable for:	
Prepaid items	830,994
Inventories	13,897,213
Restricted for:	
Capital projects	245,374
Debt service	18,231,757
Program requirements	17,607
Other	172
Committed for:	
Capital projects	34,090
Program requirements	11,703,989
Assigned for:	
Capital projects	5,289,056
Other	9,653,210
Unassigned	1,920,528
Total Fund Balance	61,823,990
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 112,545,674

DEPARTMENT OF CORRECTIONS

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND

FOR THE YEAR ENDED JUNE 30, 2020

	General Fund
REVENUES	
Probation, parole, and restitution fees	$ 14,623,560
Inmate commissary sales	12,065,185
Sale of Agency-produced goods	7,513,753
Licenses and permits	4,738,425
Work release fees	3,392,290
Telephone commissions	2,045,321
Interest income	981,449
Other sales, refunds, and reimbursements	4,196,463
TOTAL REVENUES	49,556,446
Less: State Treasury service charge	423,430
NET REVENUES	49,133,016
EXPENDITURES	
Salary and benefits	321,247,285
Communication and transportation of commodities	5,131,798
Printing and advertising	34,848
Repairing and servicing	9,322,767
Utilities and rent	18,471,628
Travel and subsistence	421,602
Professional services	83,258,924
Insurance and bonds	1,788,852
Other expenses and services	16,247,784
Commodities, materials, and supplies	51,852,478
Assistance, grants, and aid	16,184
Refunds, taxes, and claims	20,165,814
Debt service:	
Principal	7,517,425
Interest	2,039,577
Capital outlay	15,716,884
TOTAL EXPENDITURES	553,233,850
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(504,100,834)

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

Exhibit B

OTHER FINANCING SOURCES (USES)		
Interagency transfers in:		
General revenue distribution	$	477,682,410
Supplemental funding from General Revenue Allotment Reserve Fund (GAD)		15,486,599
General improvement funding		9,480,222
Merit salary adjustment funding		3,517,570
Proceeds of financing agreements with Arkansas Development Finance Authority		10,768,878
State education funding to Arkansas Correctional School System		6,459,907
Consumption certification income		5,600,000
Fund balance transferred in due to Transformation Act		13,406,050
Other, net		1,186,074
Interagency transfers out:		
Excess general revenue funding subsequently transferred to General Revenue Allotment Reserve Fund (GAD)		(24,087,378)
Prior-year refund to expenditures		19,790
Prior-year warrants outlawed and cancelled		17,788
TOTAL OTHER FINANCING SOURCES (USES)		519,537,910
NET CHANGE IN FUND BALANCE		15,437,076
FUND BALANCE - JULY 1		46,386,914
FUND BALANCE - JUNE 30	$	61,823,990

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

DEPARTMENT OF CORRECTIONS

Exhibit C

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

	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Probation, parole, and restitution fees	$ 11,644,086	$ 11,644,086	$ 14,623,560	$ 2,979,474
Inmate commissary sales	13,700,000	13,700,000	12,065,185	(1,634,815)
Sale of Agency-produced goods	19,500,000	19,500,000	7,513,753	(11,986,247)
Licenses and permits			4,738,425	4,738,425
Work release fees	3,600,000	3,600,000	3,392,290	(207,710)
Telephone commissions	2,400,000	2,400,000	2,045,321	(354,679)
Interest income			981,449	981,449
Other sales, refunds, and reimbursements	3,797,096	3,797,096	4,196,463	399,367
TOTAL REVENUES	54,641,182	54,641,182	49,556,446	(5,084,736)
Less: State Treasury service charge			423,430	(423,430)
NET REVENUES	54,641,182	54,641,182	49,133,016	(5,508,166)
EXPENDITURES				
Regular salaries	244,542,281	230,823,098	229,356,514	1,466,584
Extra help	220,000	116,000	91,490	24,510
Operating expenses	121,999,675	134,669,085	106,330,230	28,338,855
Personal services matching	91,848,764	91,450,621	88,768,872	2,681,749
Grants/aid	1,400,000	539,318	16,099	523,219
Construction	80,685,334	84,445,185		84,445,185
Overtime	3,368,000	3,064,515	3,030,409	34,106
Conference fees and travel	473,599	412,915	146,372	266,543
Professional fees and services	81,508,764	78,998,684	76,400,956	2,597,728
Capital outlay	6,849,036	5,458,434	15,632,890	(10,174,456)
Refunds/reimbursements	20,453,607	22,063,819	19,528,150	2,535,669
Debt service	10,500,000	10,500,000	7,795,762	2,704,238
Marketing and redistribution proceeds		54,550		54,550
Special maintenance	5,598,000	6,487,759		6,487,759
Paws in Prison program	150,000			
Medical monetary sanctions	1,500,000			
Jail contracts	1,533,000			
Purchase cattle/meat	650,000			
Out-of-state beds	4,427,136			
Federal asset forfeiture		50,000		50,000
War Memorial parking	10,000			
Community Correction programs	8,000,000			
Arkansas Correctional School System	7,117,261	7,117,261	6,136,106	981,155
TOTAL EXPENDITURES	692,834,457	676,251,244	553,233,850	123,017,394

DEPARTMENT OF CORRECTIONS

Exhibit C

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

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (638,193,275)	$ (621,610,062)	$ (504,100,834)	$ 117,509,228
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	472,809,701	472,809,701	477,682,410	4,872,709
Supplemental funding from General Revenue Allotment Reserve Fund (GAD)			15,486,599	15,486,599
General improvement funding			9,480,222	9,480,222
Merit salary adjustment funding			3,517,570	3,517,570
Proceeds of financing agreements with Arkansas Development Finance Authority			10,768,878	10,768,878
State education funding to Arkansas Correctional School System	6,454,524	6,454,524	6,459,907	5,383
Consumption certification income	5,600,000	5,600,000	5,600,000	
Fund balance transferred in due to Transformation Act			13,406,050	13,406,050
Other, net			1,186,074	1,186,074
Interagency transfers out:				
Excess general revenue funding subsequently transferred to General Revenue Allotment Reserve Fund (GAD)			(24,087,378)	(24,087,378)
Prior-year refund to expenditures			19,790	19,790
Prior-year warrants outlawed and cancelled			17,788	17,788
TOTAL OTHER FINANCING SOURCES (USES)	484,864,225	484,864,225	519,537,910	34,673,685
NET CHANGE IN FUND BALANCE	(153,329,050)	(136,745,837)	15,437,076	152,182,913
FUND BALANCE - JULY 1	46,386,914	46,386,914	46,386,914	
FUND BALANCE - JUNE 30	$ (106,942,136)	$ (90,358,923)	$ 61,823,990	$ 152,182,913

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

Exhibit D

DEPARTMENT OF CORRECTIONS
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUND
JUNE 30, 2020

		Agency Fund
ASSETS		
Cash and cash equivalents	$	9,358,550
Due from other state agencies		59,496
TOTAL ASSETS	$	9,418,046
LIABILITIES		
Accounts payable	$	92,674
Due to other funds		28,022
Due to inmates and inmate organizations		9,297,350
TOTAL LIABILITIES	$	9,418,046

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 910 of 2019, known as the Transformation and Efficiencies Act of 2019, established the Department of Corrections as a cabinet-level department of Arkansas state government by merging the administrative functions of multiple state agencies to include the Department of Correction, Department of Community Correction, Arkansas Correctional School System, Arkansas Parole Board, Arkansas Sentencing Commission, Office of the Criminal Detention Facilities Review Committees, and the State Council for Interstate Commission for Adult Offender Supervision. Each state entity transferred to the Department of Corrections continues to exercise the same duties and functions for which it was established as shown below:

Division of Correction – subject to the supervision, control, and direction of the Board of Corrections, jurisdiction over the care and rehabilitation of all offenders committed to the state penitentiary, as well as management and control over the daily operation of the state penitentiary system.

Division of Community Correction – subject to the supervision, control, and direction of the Board of Corrections; created to manage all community correction facilities and services, execute the orders of the criminal courts of the State of Arkansas, and provide for the supervision, treatment, rehabilitation, and restoration of adult offenders as useful law-abiding citizens within the community.

Arkansas Correctional School System – subject to the supervision, control, and direction of the Board of Corrections; created to provide elementary, secondary, and vocational and technical education to qualified persons incarcerated in facilities of the Division of Correction and the Division of Community Correction or to qualified persons supervised by the Division of Community Correction, including those on probation and parole or any type of post-prison release or transfer who are not high school graduates, irrespective of age. The Riverside Vocational Technical School is included in the Arkansas Correctional School System.

Arkansas Parole Board – created to investigate applications for pardon, commutation of sentence, reprieve, respite, or remission of fine or forfeiture and to make recommendations to the Governor.

Arkansas Sentencing Commission – created to evaluate the effect of sentencing laws, policies, and practices on the criminal justice system; to make appropriate and necessary revision to the sentencing standards; and to make recommendations to the General Assembly on proposed changes of sentencing laws, policies and practices.

Office of the Criminal Detention Facilities Review Committees – establishes minimum standards for the construction, maintenance, and operation of local, county, regional, or state criminal detention facilities and juvenile detention facilities.

State Council for Interstate Commission for Adult Offender Supervision – created to exercise oversight and advocacy concerning participation in a compact of states (interstate compact) for the supervision of adult offenders who travel across state lines in order to track the location of offenders, transfer supervision authority, and return offenders to the originating jurisdictions when necessary. The Council may perform other duties as may be determined, including development of policy over operations and procedures of the compact within the State.

The Board of Corrections is affiliated with the Department as it appoints the executive head, known as the Secretary of the Department of Corrections, and remains the governing authority of the Division of Correction and the Division of Community Correction. Additionally, the Board of Corrections acts as the Board of Directors of the Arkansas Correctional School System. The Board of Corrections consists of seven voting members: five citizen members, the Chair of the Parole Board, and one member of the criminal justice faculty at any four-year university in Arkansas.

NOTE 1: Summary of Significant Accounting Policies (Continued)

A. Reporting Entity/History (Continued)

Each member is appointed by the Governor for a term of seven years. All members are entitled to a stipend of $85 per day for attendance at official Board meetings.

The Arkansas Parole Board consists of seven members appointed by the Governor and confirmed by the Senate to a seven-year term. A Board member shall be a full-time official of the State and shall not have any other employment for the duration of his or her appointment to the Board. All members are entitled to a stipend of $85 per day for attendance at official Board meetings.

The Arkansas Sentencing Commission consists of nine voting members and two advisory members. The voting members are composed of three circuit judges, two prosecuting attorneys, two public defenders or private attorneys whose practices consist primarily of criminal defense work, and two private citizen members. Each voting member is appointed by the Governor for a term of five years. One advisory member each is appointed by the Chair of the Senate Committee on Judiciary and the Chair of the House Committee on Judiciary to serve at their pleasure. All members are entitled to a stipend of $85 per day for attendance at official Board meetings.

The State Council for Interstate Commission for Adult Offender Supervision consists of 11 members: one nonelected person, chosen from a list of five names submitted by the Director of the Division of Community Correction, who will act as the representative of the legislative branch, to be appointed by the President Pro Tempore of the Senate; one non-acting judge, appointed by the Governor as representative of the judicial branch; the seven members of the Board of Corrections representing the executive branch; one representative from a victims group appointed by the Governor; and the Director of the Division of Community Correction, who shall serve as the compact administrator for the state.

In accordance with Ark. Code Ann. § 25-16-902, all members of the boards, commissions, and councils above are entitled to reimbursement of actual expenses incurred in performing official duties at rates not to exceed those established for state employees by state travel regulations.

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.

<u>Governmental Funds</u>

<u>General Fund</u> – 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.

<u>Fiduciary Funds</u>

<u>Trust and Agency Funds</u> –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 Department as a custodian for inmates and organizations that benefit inmates.

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 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, and cash in State Treasury.

E. Deposits

<u>State Board of Finance Policies</u>

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.

<u>Deposits</u>

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling $13,580,678, $63,574,258, and $4,273,285, 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits (Continued)

Deposits (Continued)

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, $52,889 of the Agency's bank balance of $18,815,193 was exposed to custodial credit risk as follows

Uninsured and uncollateralized	$ 52,889

F. 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.

G. Inventories

Inventories represent the cost of commodities to be sold, consumed by inmates and livestock, or used in production that are on hand at year-end. Inventories purchased by the Agency are recorded as expenditures when purchased; however, material amounts of inventories are reported as assets of the respective fund. The cost of inventories produced by the Agency is estimated based on the market price of similar products, the purchase price on state contracts of similar products, or the cumulative cost to produce. 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." The purpose of the inventory and the valuation method employed are described below.

Farm Program – Livestock are held by the Agency for resale, consumption, or production. Animals are valued at fair value based on available market prices. Crops in progress (CIP) represent the production costs of the Agency's cash crops that are not available to harvest by June 30. CIP is valued at cumulative costs, including direct expenses and overhead. Harvested crops are Agency-produced crops that have not been sold at year-end or used in the feed mill for livestock consumption. Harvested crops are valued at fair value based on available market prices. Vegetables, meat, and dairy-processed goods are items that have been raised and processed by the Agency but have not been transferred to the central warehouse or a unit kitchen. These items are valued at fair value based on available market prices obtained by the Agency and the State Procurement Director for purchasing similar products and quantities in the open market. Feed, seed, fertilizer, chemicals, fuel, and replacement parts for farm equipment are used in livestock and crop production. These items are valued at average cost if purchased from vendors or available market rates if produced by the Agency. Eggs are produced with the dual purpose of providing for inmate consumption with any excess sold to generate revenue. Inventory for the egg operation consists of eggs and packaging materials. Eggs are valued based on available market prices, and packaging is at average cost.

Industry Program – This inventory category represents raw materials as well as industry program-produced goods in various phases of production. Raw materials are valued at average cost. In-process and completed items are valued at cumulative cost.

Warehouse and Kitchens – This inventory category represents items consumed or used by inmates and can include food, non-food, and janitorial products. These items are valued at average cost if purchased from vendors or available market rates if produced by the Agency.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Inventories (Continued)

Inmate Commissaries – This inventory category represents items available for purchase by inmates and can include food, clothing, hygiene, entertainment products, and others. These items are valued at average cost.

Other – This inventory category represents unleaded fuel and construction materials. These items are valued at average cost.

As of June 30, 2020, the value of inventory by type was as follows:

Inventory Type	Value
Farm program	$ 6,855,111
Industry program	1,907,806
Warehouse and kitchens	3,619,540
Inmate commissaries	1,250,883
Other	263,873
Total	$ 13,897,213

H. 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."

I. 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.

J. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Fund Equity (Continued)

Fund Balance (Continued)

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.

K. 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 CORRECTIONS
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2020
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2020*	2019	2018	2017	2016
General Fund					
Total Assets	$ 112,545,674	$ 69,217,033	$ 72,646,659	$ 72,170,199	$ 65,809,493
Total Liabilities	49,170,575	22,742,855	12,243,884	18,239,021	16,361,220
Total Deferred Inflows of Resources	1,551,109	87,264	215,074	100,903	155,955
Total Fund Equity	61,823,990	46,386,914	60,187,701	53,830,275	49,292,318
Net Revenues	49,133,016	32,961,557	35,268,002	38,300,909	42,332,089
Total Expenditures	553,233,850	438,323,811	415,777,887	408,185,440	427,847,270
Total Other Financing Sources (Uses)	519,537,910	391,561,467	386,867,311	374,422,488	392,160,816
Aggregate Remaining Fund Information					
Total Assets	9,418,046	8,577,851	7,734,183	6,426,892	6,066,789
Total Liabilities	9,418,046	8,577,581	7,734,183	6,426,892	6,066,789

* Presents information for the cabinet-level Department of Corrections created by Act 910 of 2019. All other fiscal years prior to 2020 include only information for the state agency formerly known as the Arkansas Department of Correction.

Schedule 2

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

Board/Commission/Division	Assets	Liabilities & Deferred Inflows	Net Revenues	Expenditures	Other Financing Sources/(Uses)
Division of Correction	$ 87,893,099	$ 38,680,906	$ 32,775,899	$ 419,002,148	$ 389,051,528
Division of Community Correction	18,742,053	11,450,836	15,945,954	122,557,382	113,902,645
Arkansas Correctional School System	5,495,152		409,415	6,136,106	11,221,843
Riverside Vocational Technical School	397,067	78,007	15	2,305,902	2,624,947
Arkansas Parole Board	168	87,468	1,733	2,167,338	2,078,305
Department of Corrections	11,277	409,839		749,369	350,807
Arkansas Sentencing Commission	6,858	14,628		315,605	307,835
Totals	$ 112,545,674	$ 50,721,684	$ 49,133,016	$ 553,233,850	$ 519,537,910

A. 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. 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:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land and improvements	$ 26,733,329		$ 21,498	$ 26,711,831
Buildings and improvements	398,178,741	$ 2,652,684	856,178	399,975,247
Equipment	63,951,331	2,160,920	2,153,509	63,958,742
Intangible assets	121,849	17,123		138,972
Infrastructure	20,533,687			20,533,687
Construction in progress	8,500,083	1,227,310	659,867	9,067,526
Total Governmental activities	$ 518,019,020	$ 6,058,037	$ 3,691,052	$ 520,386,005

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

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

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, 2020, 2019, and 2018, were $33,845,720, $33,591,314, and $30,736,991, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of 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. 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 retires 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.

D. Compensated Absences – Employee Leave

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

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

Compensated absences are reported in the State's "government-wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2020 and 2019, amounted to $20,153,890 and $20,543,463, respectively. The net changes to compensated absences payable during the year ended June 30, 2020, amounted to $(389,573).

E. Capital Leases

1. On December 1, 2005, the Arkansas Development Finance Authority (ADFA) issued $40,110,000 in State Agencies Facilities Revenue Bonds dated December 1, 2005. The bond proceeds were to be used to finance the costs of acquiring, constructing, and equipping a special-needs prison facility to be located near the city of Malvern. These bonds were subsequently refunded on July 30, 2013, by ADFA through the issuance of $30,960,000 in State Agencies Facilities Revenue Refunding Bonds dated July 30, 2013.

   The Department of Transformation and Shared Services – Division of Building Authority (DBA) entered a lease agreement with ADFA dated December 1, 2005, for the purchase of these prison facilities. DBA subsequently entered a sublease agreement, also dated December 1, 2005, with the Division of Correction for these same facilities. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

E. Capital Leases (Continued)

2. On September 19, 2017, ADFA issued $17,901,604 in State Agency Energy Conservation Bonds dated September 19, 2017. The bond proceeds are to be used to finance energy efficiency projects in compliance with the rules and regulations established by Ark. Code Ann. § 19-11-1201 known as the Guaranteed Energy Cost Savings Act. The energy conservation measures (project) identified through the Division of Correction's Energy Service Company (contractor) include upgrades at the East Arkansas Regional Unit (EARU) and the Delta Regional Unit to include LED lighting, water systems, HVAC equipment and controls, food waste composting, and an inmate energy education program. Additionally, a solar energy facility will be constructed at EARU.

   To finance the project, the Division of Correction and ADFA simultaneously entered into an assignment agreement and a lease agreement dated September 19, 2017, in which the ownership rights to the project and the right to receive any performance guarantee payments from the contractor are assigned to ADFA and then leased by the Division of Correction. The lease term will end on the later of March 1, 2037, or the date the bonds are paid in full, at which time the Division of Correction has the option to purchase the project for $1. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

3. On September 19, 2017, ADFA issued $9,802,283 in State Agency Energy Conservation Bonds dated September 19, 2017. The bond proceeds are to be used to finance energy efficiency projects in compliance with the rules and regulations established by Ark. Code Ann. § 19-11-1201 known as the Guaranteed Energy Cost Savings Act. The energy conservation measures (project) identified through the Division of Community Correction's Energy Service Company (contractor) include heating, ventilation, and air improvements; lighting retrofitting; water conservation measures; power factor correction; and building envelope upgrades at Community Correction centers throughout the State. Additionally, a solar energy facility will be constructed at the Northeast Arkansas Community Correction Center.

   To finance the project, the Division of Community Correction and ADFA simultaneously entered into an assignment agreement and a lease agreement dated September 19, 2017, in which the ownership rights to the project and the right to receive any performance guarantee payments from the contractor are assigned to ADFA and then leased by the Division of Community Correction. The lease term will end on the later of March 1, 2037, or the date the bonds are paid in full, at which time the Division of Community Correction has the option to purchase the project for $1. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

4. On August 23, 2018, ADFA issued $17,795,000 in State Agency Facilities Revenue Bonds dated August 23, 2018. The bond proceeds are to be used to finance the costs of the acquisition and renovation of an existing property in the city of North Little Rock to serve as the headquarters of the Division of Community Correction, and the acquisition of an existing building in the city of Fort Smith to serve as the Parole and Probation Office of that area.

   DBA entered a lease agreement with ADFA dated August 23, 2018, for the purchase of these prison facilities. DBA subsequently entered a sublease agreement, also dated August 23, 2018, with the Division of Community Correction for these same facilities. As of June 30, 2020, $2,984,807 in bond proceeds remained available for project use. The long-term obligation for this lease is reported as a liability in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

   Construction and other costs incurred are reported on the books of the Department of Corrections as buildings and building improvements. Lease payments are made from general improvement funding appropriated by the Legislature and other available funds of the Division of Correction and the Division of Community Correction.

   The leased property, which under GASB Statement No. 62 is treated as a capital lease, is as follows:

Class of Property	Asset Balance June 30, 2020
Buildings and building improvements	$ 78,310,673

E. Capital Leases (Continued)

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, 2020:

Years Ending June 30,	Governmental Fund Types Lease Payments
2021	$ 6,067,566
2022	6,094,447
2023	6,130,368
2024	6,161,999
2025	6,196,110
2026 - 2030	19,520,225
2031 - 2035	17,495,673
2036 - 2040	5,241,962
Total Minimum Lease Payments	72,908,350
Amount representing interest	15,652,291
Present Value of Minimum Lease Payments	$ 57,256,059

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

On June 2, 2009, ADFA issued $29,785,000 in Correctional Facilities Construction Bonds dated May 15, 2009. The bond proceeds were to be used to finance the costs of acquiring, constructing, improving, and equipping capital improvements to various correctional facilities of the Division of Correction. These bonds were subsequently refunded on May 26, 2016, by ADFA through the issuance of $25,760,000 in Correctional Facilities Construction Refunding Bonds dated May 26, 2016.

ADFA entered into a loan agreement with the Agency dated May 15, 2009, whereby the net proceeds from the bond sale will be loaned to the Agency with the terms of the loan equivalent to the bond indenture. The long-term obligation for this loan is reported in the State's "government-wide" financial statements but is not reported as a liability in the governmental funds.

The following is a schedule of future loan payments under the agreement as of June 30, 2020:

Years Ending June 30,	Principal	Interest	Total
2021	$ 837,917	$ 808,728	$ 1,646,645
2022	872,917	744,716	1,617,633
2023	907,917	709,737	1,617,654
2024	943,333	673,358	1,616,691
2025	983,333	635,554	1,618,887
2026 - 2030	5,527,917	2,554,650	8,082,567
2031 - 2035	6,586,667	1,497,277	8,083,944
2036 - 2040	5,880,416	446,806	6,327,222
Totals	$ 22,540,417	$ 8,070,826	$ 30,611,243

F. Loan Payable to Arkansas Development Finance Authority (ADFA) (Continued)

ADFA transfers funds to the Division of Correction's cash fund as needed to pay construction costs. Construction costs incurred are reported on the books of the Department of Corrections as assets under construction, buildings and improvements, and land improvements. Loan payments are made from the Prison Construction Trust Fund. The Trust Fund receives funding from a portion of the sale of annual license plate validation decals in accordance with Ark. Code Ann. § 22-3-1225. These revenues have been pledged to cover the principal and interest requirements on bonds issued by ADFA. The following is a summary of the remaining principal and interest due, the gross pledged revenue collected, and principal and interest paid during the year ended June 30, 2020:

Revenues Pledged	Purpose of Debt	Term of Commitment	Remaining Principal and Interest	FY20 Pledged Revenue	FY20 Principal and Interest Paid
License Fees	Prison Construction	2039	$ 30,611,243	$ 4,159,232	$ 1,616,921

G. Loan Payable to Budget Stabilization Trust Fund

Ark. Code Ann. § 19-5-501 requires the Budget Stabilization Trust Fund to make loans as necessary to the Division of Correction for farm production purposes. The Code further stipulates that the loan will be reduced by the value of products produced or processed on the farm that were consumed by inmates in amounts determined and certified by the Legislative Auditor to the Chief Financial Officer of the State.

The loan amount approved by the Chief Fiscal Officer of the State for FY2020 was $5.6 million. Based on the Legislative Auditor's Report on Certification of Consumption of Farm Produce for FY2020 and in accordance with the provisions of the law, the Agency's loan from the Budget Stabilization Trust Fund has been forgiven.