

**ARKANSAS STATE HIGHWAY AND
TRANSPORTATION DEPARTMENT**

Annual Financial Report

June 30, 2015

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2015

Independent Auditor's Report
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*

FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Governmental Fund	A
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – General Fund	C
Statement of Net Position – Fiduciary Funds	D
Notes to Financial Statements	

OTHER INFORMATION (Unaudited)

	<u>Schedule</u>
Schedule of Selected Information	1
Ten-Year Schedule of Changes in Net Pension Liability and Related Ratios	2
Ten-Year Schedule of Agency Contributions	3
Other General Information	

Arkansas

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Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas State Highway and Transportation Department
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 Arkansas State Highway and Transportation Department, a department of Arkansas state government, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Arkansas State Highway and Transportation Department'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 accounting 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 Arkansas State Highway and Transportation Department as of June 30, 2015, the changes in financial position thereof, 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 Arkansas State Highway and Transportation Department are intended to present the financial position, 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 Arkansas State Highway and Transportation Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2015, changes in its financial position, and budgetary comparisons for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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 Arkansas State Highway and Transportation Department 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 Arkansas State Highway and Transportation Department 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 Arkansas State Highway and Transportation Department's departmental financial statements. The Schedule of Selected Information, Ten-Year Schedule of Changes in Net Pension Liability and Related Ratios, Ten-Year Schedule of Agency Contributions, and Other General Information are presented for the purpose of additional analysis and are not a required part of the departmental financial statements.

The Schedule of Selected Information, Ten-Year Schedule of Changes in Net Pension Liability and Related Ratios, Ten-Year Schedule of Agency Contributions, 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 14, 2016, on our consideration of the Arkansas State Highway and Transportation Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Arkansas State Highway and Transportation Department's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
June 14, 2016
SA0509015

Arkansas

Sen. Jimmy Hickey, Jr.
Senate 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

Arkansas State Highway and Transportation Department
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 Arkansas State Highway and Transportation Department (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Arkansas State Highway and Transportation Department's departmental financial statements, and have issued our report thereon dated June 14, 2016.

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) to determine the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Jon Moore".

Jon Moore, CPA, CFE, CFF
Deputy Legislative Auditor

Little Rock, Arkansas
June 14, 2016

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2015

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	\$ 831,108,174
Investments	454,433,348
Receivable, net:	
Accounts	1,715,937
Taxes	29,047,670
Damage settlement claims	1,145,225
Due from other funds	25,000
Due from other state agencies	8,809,670
Due from other governments	28,470,206
Prepaid items	1,197,707
Inventories	18,723,740
TOTAL ASSETS	\$ 1,374,676,677
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable:	
Vendors	\$ 2,411,765
Construction contracts	19,940,790
Contracts retainage	1,419,171
Accrued payroll	2,207,893
Unearned revenue	76,660
Due to other state agencies	4,856,820
Total Liabilities	30,913,099
Deferred inflows of resources:	
Related to revenues	2,546,896
Fund balance:	
Nonspendable for:	
Prepaid items	1,197,707
Inventories	18,723,740
Restricted	721,930,798
Committed	599,364,437
Total Fund Balance	1,341,216,682
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,374,676,677

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit B

	General Fund
REVENUES	
Motor user taxes and fees:	
Four-lane highway sales and use tax	\$ 170,918,028
Motor fuel	319,230,269
Natural gas severance	51,974,292
Vehicle registration	87,578,141
Overload permits and penalties	17,340,785
Other	15,424,521
Federal grants and reimbursements	517,930,362
Investment earnings	940,744
Other sales, refunds, and reimbursements	35,306,074
TOTAL REVENUES	1,216,643,216
Less: State Treasury service charge	20,476,739
NET REVENUES	1,196,166,477
EXPENDITURES	
Personal services - payroll	151,487,647
Employee benefits - matching	46,900,572
Communication and transportation of commodities	1,225,050
Printing and advertising	299,141
Repairing and servicing	22,843,413
Utilities and rent	4,154,697
Travel and subsistence	3,452,129
Professional services	43,660,957
Insurance and bonds	204,563
Other expenses and services	857,954
Commodities, materials, and supplies	53,194,396
Assistance, grants, and aid	149,952,360
Refunds, taxes, and claims	6,294,567
Debt service:	
Principal	94,295,000
Interest	39,505,064
Bond issuance cost	1,055,093
Low-value asset purchases	3,082,546
Capital outlay	712,404,007
TOTAL EXPENDITURES	1,334,869,156
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(138,702,679)

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit B

	General Fund
OTHER FINANCING SOURCES (USES)	
Issuance of debt	\$ 206,530,000
Bond premiums	37,031,658
Interagency transfers:	
General revenue allocation	2,854,000
Federal funding	9,010,995
Marketing and redistribution sale proceeds	17,900
Other	2,416,773
Prior-year warrants outlawed and cancelled	54,461
 TOTAL OTHER FINANCING SOURCES (USES)	 257,915,787
 NET CHANGE IN FUND BALANCE	 119,213,108
 FUND BALANCE - JULY 1	 1,222,003,574
 FUND BALANCE - JUNE 30	 \$ 1,341,216,682

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Special revenue	\$ 731,800,000	\$ 731,800,000	\$ 662,466,036	\$ (69,333,964)
Federal grants and reimbursements	569,100,000	569,100,000	517,930,362	(51,169,638)
Investment earnings			940,744	940,744
Other sales, refunds, and reimbursements	51,250,000	51,250,000	35,306,074	(15,943,926)
TOTAL REVENUES	1,352,150,000	1,352,150,000	1,216,643,216	(135,506,784)
Less: State Treasury service charge			20,476,739	(20,476,739)
NET REVENUES	1,352,150,000	1,352,150,000	1,196,166,477	(155,983,523)
EXPENDITURES				
Regular salaries	181,820,100	186,620,100	151,487,647	35,132,453
Personal services matching	58,540,730	58,540,730	46,900,572	11,640,158
Overtime	7,000,000	2,200,000		2,200,000
Operating expenses	314,104,000	311,123,476	229,495,505	81,627,971
Conference fees and travel	250,000	250,000	190,603	59,397
Professional fees and services	60,000,000	60,000,000	53,572,349	6,427,651
Grants and aid	2,850,000	5,848,424	5,848,000	424
Claims		115,316	115,316	
Capital outlay	1,319,860,000	1,269,860,000	712,404,007	557,455,993
Debt service	95,000,000	145,000,000	134,855,157	10,144,843
TOTAL EXPENDITURES	2,039,424,830	2,039,558,046	1,334,869,156	704,688,890
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(687,274,830)	(687,408,046)	(138,702,679)	548,705,367

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2015

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Issuance of debt, net of bond premiums	\$ 400,000,000	\$ 400,000,000	\$ 243,561,658	\$ (156,438,342)
Interagency transfers:				
General revenue allocation	2,854,000	2,854,000	2,854,000	
Federal funding			9,010,995	9,010,995
Marketing and redistribution sale proceeds			17,900	17,900
Other			2,416,773	2,416,773
Prior-year warrants outlawed and cancelled			54,461	54,461
TOTAL OTHER FINANCING SOURCES (USES)	<u>402,854,000</u>	<u>402,854,000</u>	<u>257,915,787</u>	<u>(144,938,213)</u>
NET CHANGE IN FUND BALANCES	(284,420,830)	(284,554,046)	119,213,108	403,767,154
FUND BALANCES - JULY 1	<u>1,222,003,574</u>	<u>1,222,003,574</u>	<u>1,222,003,574</u>	
FUND BALANCES - JUNE 30	<u>\$ 937,582,744</u>	<u>\$ 937,449,528</u>	<u>\$ 1,341,216,682</u>	<u>\$ 403,767,154</u>

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit D

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 276,832
Investments, at fair value - certificates of deposit	765,000
Accrued interest receivable	158
 TOTAL ASSETS	 \$ 1,041,990
 LIABILITIES	
Due to third parties:	
Employee group insurance	\$ 56,887
Cafeteria plan	37,000
Right-of-way, utility and access drive permits, and bid depositors	884,465
Due to other funds	25,000
Due to other governments - drug forfeiture	38,638
 TOTAL LIABILITIES	 \$ 1,041,990

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The mission of the Arkansas State Highway and Transportation Department is to provide a safe, efficient, aesthetically-pleasing, and environmentally-sound intermodal transportation system for the user. This mission includes planning, constructing, maintaining, and policing state roads and highways; providing aid to individual county road systems; providing funding for the construction and maintenance of recreational trails for both motorized and non-motorized transport; and overseeing a number of programs related to Arkansas roads, including the Scenic Byways, Historic Bridges, and Wildflower Programs.

Ark. Const. amend. 42 was adopted by voters in November 1952 and created the current Arkansas State Highway Commission (the "Commission"). Ark. Const. amend. 42 and Ark. Code Ann. Title 27 provide specific laws related to transportation, the powers and duties of the Commission and the Agency in the coordination of public and private transportation activities, and the effective implementation of the Agency's mission.

The Commission is composed of five members appointed by the Governor, with the advice and consent of the Arkansas Senate, to serve 10-year terms. The Commission is assigned all powers necessary to fully and effectively administer state laws and regulations relating to Agency operations. The Agency Director is appointed by the Commission and is responsible for developing and managing a professional staff to oversee operations.

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.

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 - Funds that are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds account for the collection and disbursement of payroll amounts withheld for various insurance products and the Section 125 Cafeteria Plan (Flexible Benefits Plan), amounts held to ensure the performance of certain contractors, and amounts confiscated by the Arkansas Highway Police while enforcing federal, state, and local drug laws.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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. Agency funds represent the only fiduciary fund type, financial statements are presented using the full accrual basis of accounting, and no measurement focus is used since they are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

D. Cash and Cash Equivalents

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

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.

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.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling \$795,597, \$830,370,956, and \$765,000, 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, 2015, none of the Agency’s bank balance of \$2,534,411 was exposed to custodial credit risk.

Investments

Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value based on available quoted market prices. 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.

As of June 30, 2015, the Agency had 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
Mutual funds	\$ 230,418,972	\$ 230,418,972			
U.S. treasuries	224,014,376	224,014,376			
Total	<u>\$ 454,433,348</u>	<u>\$ 454,433,348</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

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, 2015, is as follows:

Rating	Fair Value
AAA	<u>\$ 454,433,348</u>

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.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. 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.

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 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.

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) or (b) legally or contractually required to be maintained intact.

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

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

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

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

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

J. Fund Equity (Continued)

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.

A summary of the nature and purpose of each of these fund balance classifications as of June 30, 2015, is as follows:

	Nonspendable Fund Balance	Spendable Fund Balance	
		Restricted	Committed
Prepaid expenses	\$ 1,197,707		
Inventories	18,723,740		
Transportation		\$ 705,360,275	\$ 599,364,437
Debt service		16,504,987	
Other		65,536	
Total	<u>\$ 19,921,447</u>	<u>\$ 721,930,798</u>	<u>\$ 599,364,437</u>

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.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
 SCHEDULE OF SELECTED INFORMATION
 FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2015
 (UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2015	2014	2013	2012	2011
GENERAL FUND					
Total Assets	\$ 1,374,676,677	\$ 1,268,132,033	\$ 627,737,427	\$ 488,568,211	\$ 487,659,496
Total Liabilities	30,913,099	43,834,311	49,649,250	44,683,873	47,099,195
Total Deferred Inflows of Resources	2,546,896	2,294,149			
Total Fund Equity	1,341,216,682	1,222,003,573	578,088,177	443,884,338	440,560,301
Net Revenues	1,196,166,477	1,216,644,340	1,044,997,375	1,068,242,896	1,023,313,912
Total Expenditures	1,334,869,156	1,282,618,059	1,154,267,369	1,075,082,124	1,107,917,058
Total Other Financing Sources (Uses)	257,915,787	709,889,115	243,473,833	10,163,265	17,096,931
AGENCY FUNDS					
Total Assets	1,041,990	1,179,941	1,125,370	1,409,469	1,760,639
Total Liabilities	1,041,990	1,179,941	1,125,370	1,409,469	1,760,639

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
TEN-YEAR SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2015 (1)
(UNAUDITED)

Schedule 2

	2015	2014 to 2006
Total Pension Liability		N/A
Service cost	\$ 16,862,918	
Interest	112,962,064	
Benefit payments, including refunds of employee contributions	(95,454,598)	
Net changes in total pension liability	34,370,384	
Total pension liability - beginning	1,450,565,674	
Total pension liability - ending (a)	\$ 1,484,936,058	
 Plan Fiduciary Net Position		
Employer contributions	\$ 18,614,507	
Employee contributions	8,884,829	
Net investment income	234,208,606	
Benefit payments, including refunds of employee contributions	(95,454,598)	
Administrative expense	(43,282)	
Net change in plan fiduciary net position	166,210,062	
Plan fiduciary net position - beginning	1,326,022,360	
Plan fiduciary net position - ending (b)	\$ 1,492,232,422	
 Net pension liability (asset) - ending (a-b)	\$ (7,296,364)	
 Plan fiduciary net position as a percentage of total pension liability	100.49%	
 Covered employee payroll (2)	\$ 137,261,720	
 Net pension liability as a percentage of covered employee payroll	(5.32)%	

Notes to Schedule

- (1) Measurement date is as of June 30, 2014.
- (2) In 2015, covered employee payroll used an estimate of average annual payroll for DROP participants of \$75,000.
- N/A The Agency implemented GASB Statement 68 in fiscal year 2015. Information for the schedule was not available prior to this fiscal year.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
 TEN-YEAR SCHEDULE OF AGENCY CONTRIBUTIONS
 FOR THE YEAR ENDED JUNE 30, 2015
 (UNAUDITED)

Schedule 3

	<u>2015</u>	<u>2014</u>	<u>2013 to 2006</u>
Statutorily determined contribution	\$ 19,059,012	\$ 18,614,507	N/A
Contributions in relation to the statutorily determined contribution	<u>19,059,012</u>	<u>18,614,507</u>	
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	
Covered employee payroll	\$ 140,544,393	\$ 137,261,720	
Contributions as a percentage of covered employee payroll	13.56%	13.56%	

Notes to Schedule

N/A The Agency implemented GASB Statement 68 in fiscal year 2015. Information for the schedule was not available prior to this fiscal year.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

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 fair market value at the time received. 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:

<u>Assets:</u>	<u>Years</u>
Equipment	4-20
Buildings and building improvements	20-50
Infrastructure	10-30
Other capital assets	4-20

At June 30, 2015, the Agency had commitments related to planning, designing, and constructing infrastructure for roads and bridges totaling \$817,294,911.

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 614,960,371	\$ 27,925,091	\$ 159,732	\$ 642,725,730
Buildings and welcome centers	130,969,991	1,741,597	2,404,526	130,307,062
Equipment	224,875,624	24,767,934	11,276,161	238,367,397
Infrastructure	13,072,878,928	609,749,392	29,540,000	13,653,088,320
Construction in progress	1,469,569,427	661,141,408	597,910,275	1,532,800,560
 Total governmental activities	 \$ 15,513,254,341	 \$ 1,325,325,422	 \$ 641,290,694	 \$ 16,197,289,069

B. Pension Plan

Plan Description

The Arkansas State Highway Employees Retirement System (ASHERS), a single-employer defined benefit pension plan administered by a six-member Board of Trustees that provides pension benefits to all employees of the Agency. Benefit provisions are established and amended by Ark. Code Ann. Title 24. ASHERS issues a publicly-available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas State Highway Employees Retirement System, 10324 Interstate 30, Little Rock, Arkansas, 72209 or by calling 1-501-569-2000.

Benefits Provided

Members are eligible for full retirement benefits as follows:

- Age 65 with five or more years of service.
- Age 62 with 15 or more years of service.
- Age 60 with 20 years of service.
- Any age with 28 or more years of service.

A member may retire with a reduced benefit at age 55 with 10 years of service.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

B. Pension Plan (Continued)

Benefits Provided (Continued)

The retirement benefit is paid monthly and is determined based on the members' average salary and the number of years and months of credited service. Average salary is the average of the highest 36 consecutive months' salary. Retiree benefits are calculated each year on July 1 for the following 12 months. The benefit is recalculated based on the benefit determined as of the immediately preceding July 1, increased by 3%. ASHERS also provides disability and survivor benefits.

At June 30, 2014, the following employees were covered by the pension plan:

	<u>Employees</u>
Inactive employees or beneficiaries currently receiving benefits	3,162
Inactive employees entitled to but not yet receiving benefits	217
Active employees	3,524
 Total	 6,903

Funding Policy

Periodic employer contributions are made at statutorily-established rates with a fundamental financial objective of having contribution rates that remain relatively level. To test the adequacy of the statutory rates and assess the extent to which the fundamental financial objective is being achieved, ASHERS has actuarial valuations prepared annually.

The statutory employer contribution rate is 12.9% of the pay of each covered employee not in the deferred retirement option program (DROP). Employer contributions are not made on the pay of employees in Tier I DROP. Employer contributions are 6.9% on the pay of employees in Tier II DROP.

Covered employees not in Tier I DROP are required to contribute 6% of their compensation.

Net Pension Asset

At June 30, 2015, the Agency reported a net pension asset of \$7,296,364 with a measurement date of June 30, 2014, determined by an actuarial valuation as of that date. This amount was reported in the State's "Government-Wide" financial statements but is not reported in the governmental fund financial statements.

Actuarial Assumptions

The total pension liability in the actuarial valuation (as of the date noted below) was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2014
Inflation rate	3.50%
Salary increases (includes assumed inflation)	4.5% to 11.5%
Investment rate of return (includes assumed inflation)	8.00%
Mortality rates	1994 Uninsured Pensioner Mortality Table
Actuarial experience study dates	July 1, 2004 - June 30, 2008, updated for the 2013 valuation

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

B. Pension Plan (Continued)

Actuarial Assumptions (Continued)

The plan operates with an asset allocation of 20% to 75% equity and 20% to 75% fixed income. Because the asset classes are not set in a specific target range, the actuary used the expected rate of return of 8.00%.

Discount Rate

A single discount rate of 8.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 8.00%. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain constant as a percentage of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

The following table provides the changes in net pension liability at June 30, 2015:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a-b)
Balances, June 30, 2013	\$ 1,450,565,674	\$ 1,326,022,360	\$ 124,543,314
Changes for the year:			
Service cost	16,862,918		16,862,918
Interest	112,962,064		112,962,064
Contributions - employer		18,614,507	(18,614,507)
Contributions - employee		8,884,829	(8,884,829)
Net investment income		234,208,606	(234,208,606)
Benefit payments, including refunds of employee contributions	(95,454,598)	(95,454,598)	
Administrative expense		(43,282)	43,282
Net changes	34,370,384	166,210,062	(131,839,678)
Balances, June 30, 2014	\$ 1,484,936,058	\$ 1,492,232,422	\$ (7,296,364)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Agency's net pension liability (asset) for the plan using the discount rate stated, as well as what the Agency's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (expressed in thousands):

1% lower than current discount rate		Current discount rate		1% higher than current discount rate	
Rate	Net Pension Liability	Rate	Net Pension Liability	Rate	Net Pension Liability
7.00%	\$ 152,967	8.00%	\$ (7,296)	9.00%	\$ (142,302)

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

C. Compensated Absences – Employee Leave

Upon separation from the Agency, employees are entitled to receive compensation for their unused accrued annual leave. Annual leave is earned by all full-time employees, and monthly accrual and yearly carryover rates are based on years of service as follows:

Years of Service with the State	Monthly Accrual Rate	Maximum Carryover to Next Leave Year
1 day to 3 years	8 hours	17 days
3 to 5 years	10 hours	20 days
5 to 12 years	12 hours	23 days
12 to 20 years	14 hours	26 days
20 years and over	15 hours	27.5 days

Sick leave is earned by all full-time employees at a rate of eight hours per month, and there is no limit to the number of sick hours employees may accrue. 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, 2015 and 2014, amounted to \$13,636,473 and \$12,048,506, respectively. The net changes to compensated absences payable during the year ended June 30, 2015, amounted to \$1,587,967.

D. Long-Term Liabilities – General Obligation Bonds

General obligation bonds issued by the Agency must be authorized by the General Assembly and approved by voters of the State during a general or special election. Principal, interest, and paying agent fees are recorded as debt service expenditures when due. When a bond is issued, the face amount of the debt is recorded as an other financing source, and the bond premium, discount, and/or issuance cost is recognized. Premiums and discounts are recorded as other financing sources and uses, respectively. Issuance costs are recorded as debt service expenditures. In accordance with current accounting principles generally accepted in the United States of America, the liability; deferred premiums and/or discounts; and amortization of deferred premiums and/or discounts are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements.

Changes in long-term liabilities for general obligation bonds for the year ended June 30, 2015, are summarized as follows:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Governmental activities:					
General obligation					
bonds payable	\$ 903,870,000	\$ 206,530,000	\$ 94,295,000	\$ 1,016,105,000	\$ 42,680,000

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

D. Long-Term Liabilities – General Obligation Bonds (Continued)

General obligation bonds outstanding at June 30, 2015, are as follows:

	<u>Authorization</u>	<u>Final Maturity (Fiscal Year)</u>	<u>Interest Rates</u>	<u>Balance</u>
Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds:				
2012 series - \$197 million issued in fiscal year 2013 for the rehabilitation and reconstruction of the existing interstate highway system.	Act 511 of 2007	2025	3.0% - 5.0%	\$ 189,405,000
2013 series - \$171 million issued in fiscal year 2014 for the rehabilitation and reconstruction of the existing interstate highway system.	Act 511 of 2007	2026	4.0% - 5.0%	165,580,000
2014 series - \$206.5 million issued in fiscal year 2015 for the rehabilitation and reconstruction of the existing interstate highway system.	Act 511 of 2007	2027	5%	<u>198,225,000</u>
Total Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds				<u>553,210,000</u>
Four-Lane Highway Construction and Improvement General Obligation Bonds:				
2013 series - \$469 million issued in fiscal year 2014 for the construction and improvement of four-lane highways.	Ark. Const. amend. 91	2023	1.0% - 5.0%	<u>462,895,000</u>
Total General Obligation Bonds				<u>\$ 1,016,105,000</u>

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

D. Long-Term Liabilities – General Obligation Bonds (Continued)

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2015, are summarized as follows:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 42,680,000	\$ 43,478,375	\$ 86,158,375
2017	45,730,000	41,380,475	87,110,475
2018	47,940,000	39,126,600	87,066,600
2019	50,270,000	36,760,975	87,030,975
2020	84,165,000	34,277,350	118,442,350
2021 - 2025	702,725,000	74,968,075	777,693,075
2026 - 2030	42,595,000	1,845,075	44,440,075
Totals	\$ 1,016,105,000	\$ 271,836,925	\$ 1,287,941,925

Details regarding the authorization of general obligation bonds are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds

Act 511 of 2007 and a statewide election conducted November 8, 2011, authorized the Highway Commission to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The bonds may be issued in one or more series, provided that the total principal amount outstanding, together with the total principal amount outstanding from the issuance of bonds pursuant to Act 1027 of 1999, shall not at any time exceed \$575 million. The proceeds are to be used for rehabilitation and reconstruction of the existing interstate highway system. On December 1, 2014, \$206.5 million in bonds were issued under the authority of this Act.

Bonds issued under the authority of Act 511 of 2007 are payable primarily from federal interstate maintenance funds (FIMF), state matching for these funds, and a 4 cent per gallon diesel fuel tax. Revenues and apportionments designated for the repayment of bonds for fiscal years 2011 through 2015 and projected amounts for fiscal years 2016 through 2020, are as follows (expressed in thousands):

Revenues and Apportionments					
Fiscal Year Ending June 30,	Additional Diesel Tax Revenues	Apportioned FIMF	Projected		
			Fiscal Year Ending June 30,	Additional Diesel Tax Revenues	Apportioned FIMF
2011	\$ 16,705	\$ 101,656	2016	\$ 16,500	\$ 95,997
2012	16,548	95,115	2017	16,500	96,957
2013	16,344	98,100	2018	16,500	97,927
2014	16,206	94,972	2019	16,500	98,906
2015	16,315	91,161	2020	16,500	99,895

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
OTHER GENERAL INFORMATION
JUNE 30, 2015
(UNAUDITED)

D. Long-Term Liabilities – General Obligation Bonds (Continued)

Four-Lane Highway Construction and Improvement General Obligation Bonds

Amendment 91 to the Arkansas Constitution, passed by voters during a statewide election conducted on November 6, 2012, authorized the Highway Commission to issue Four-Lane Highway Construction and Improvement General Obligation Bonds. All bonds issued under the authority of this Amendment are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The bonds may be issued in one or more series, provided the total principal amount of bonds issued does not exceed \$1.3 billion. The proceeds are to be used for the construction and improvement of four-lane highways in the State. The bonds are payable primarily from a temporary 1/2 cent sales and use tax authorized by the Amendment, and revenues collected during the 2015 fiscal year designated for the repayment of bonds totaled \$166 million. No bonds were issued under the authority of this Amendment in the 2015 fiscal year.