

ARKANSAS DEPARTMENT OF TRANSPORTATION

Annual Financial Report

June 30, 2018



ARKANSAS DEPARTMENT OF TRANSPORTATION
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Arkansas



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Sen. Eddie Cheatham
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Department of Transportation
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 Department of Transportation, a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Transportation's departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund, the aggregate remaining fund information of the Arkansas Department of Transportation as of June 30, 2018, 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 Department of Transportation 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 Arkansas Department of Transportation. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018, the changes in its financial position, and budgetary comparisons for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Arkansas Department of Transportation 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 Department of Transportation 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 Arkansas Department of Transportation'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 purposes 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 July 2, 2019, on our consideration of the Arkansas Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Arkansas Department of Transportation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arkansas Department of Transportation's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
July 2, 2019
SA0509018

Arkansas

Sen. Jason Rapert
Senate Chair
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House 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 Department of Transportation
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 Department of Transportation (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Transportation's departmental financial statements, and have issued our report thereon dated July 2, 2019.

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 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. 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 black ink that reads "Tom Bullington". The signature is written in a cursive style with a long horizontal stroke at the end.

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
July 2, 2019

ARKANSAS DEPARTMENT OF TRANSPORTATION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2018

Exhibit A

| | General Fund |
|--|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,085,386,347 |
| Investments | 13,878,568 |
| Receivable, net: | |
| Accounts | 1,650,520 |
| Taxes | 30,749,695 |
| Damage settlement claims | 762,034 |
| Due from other funds | 25,000 |
| Due from other state agencies | 10,229,756 |
| Due from other governments | 39,775,262 |
| Prepaid items | 1,599,869 |
| Inventories | 27,681,065 |
| TOTAL ASSETS | \$ 1,211,738,116 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | |
| Liabilities: | |
| Accounts payable: | |
| Vendors | \$ 9,404,151 |
| Construction contracts | 19,109,803 |
| Accrued payroll | 4,105,194 |
| Grants payable | 974,531 |
| Unearned revenue | 72,308 |
| Due to other state agencies | 4,203,950 |
| Total Liabilities | 37,869,937 |
| Deferred inflows of resources: | |
| Related to revenues | 2,390,523 |
| Fund balance: | |
| Nonspendable for: | |
| Prepaid items | 1,599,869 |
| Inventories | 27,681,065 |
| Restricted | 707,403,044 |
| Committed | 434,793,678 |
| Total Fund Balance | 1,171,477,656 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | \$ 1,211,738,116 |

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

| | General Fund |
|---|----------------|
| REVENUES | |
| Motor user taxes and fees: | |
| Four-lane highway sales and use tax | \$ 187,426,535 |
| Motor fuel | 345,377,927 |
| Natural gas severance | 25,734,490 |
| Vehicle registration | 93,230,154 |
| Overload permits and penalties | 16,292,203 |
| Other | 15,481,550 |
| Federal grants and reimbursements | 771,153,381 |
| Investment earnings | 417,093 |
| Other sales, refunds, and reimbursements | 19,850,454 |
| TOTAL REVENUES | 1,474,963,787 |
| Less: State Treasury service charge | 14,665,632 |
| NET REVENUES | 1,460,298,155 |
| EXPENDITURES | |
| Personal services - payroll | 155,622,955 |
| Employee benefits - matching | 45,641,778 |
| Communication and transportation of commodities | 1,563,940 |
| Printing and advertising | 424,461 |
| Repairing and servicing | 23,961,534 |
| Utilities and rent | 4,723,192 |
| Travel and subsistence | 3,944,662 |
| Professional services | 38,702,300 |
| Insurance and bonds | 219,057 |
| Other expenses and services | 9,169,852 |
| Commodities, materials, and supplies | 62,466,279 |
| Assistance, grants, and aid | 148,532,774 |
| Refunds, taxes, and claims | 4,913,297 |
| Debt service: | |
| Principal | 47,940,000 |
| Interest | 39,126,600 |
| Low-value asset purchases | 3,539,742 |
| Capital outlay | 989,820,982 |
| TOTAL EXPENDITURES | 1,580,313,405 |

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

| | General Fund |
|---|------------------|
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ (120,015,250) |
| OTHER FINANCING SOURCES (USES) | |
| Interagency transfers: | |
| General revenue allocation | 349,604 |
| Rainy day fund (Act 1123 of 2017) | 20,000,000 |
| Federal funding | 332,220 |
| Interest income | 34,845,645 |
| Marketing and redistribution sale proceeds | 23,438 |
| Other | (1,820,729) |
| Prior-year warrants outlawed and cancelled | 2,365,488 |
| TOTAL OTHER FINANCING SOURCES (USES) | 56,095,666 |
| NET CHANGE IN FUND BALANCE | (63,919,584) |
| FUND BALANCE - JULY 1 | 1,235,397,240 |
| FUND BALANCE - JUNE 30 | \$ 1,171,477,656 |

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

| | General Fund | | | Variance With Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| | Budgeted Amount | | Actual | |
| | Original | Final | | |
| REVENUES | | | | |
| Special revenue | \$ 706,440,000 | \$ 706,440,000 | \$ 683,542,859 | \$ (22,897,141) |
| Federal grants and reimbursements | 686,100,000 | 686,100,000 | 771,153,381 | 85,053,381 |
| Investment earnings | | | 417,093 | 417,093 |
| Other sales, refunds, and reimbursements | 206,500,000 | 206,500,000 | 19,850,454 | (186,649,546) |
| TOTAL REVENUES | 1,599,040,000 | 1,599,040,000 | 1,474,963,787 | (124,076,213) |
| Less: State Treasury service charge | | | 14,665,632 | (14,665,632) |
| NET REVENUES | 1,599,040,000 | 1,599,040,000 | 1,460,298,155 | (138,741,845) |
| EXPENDITURES | | | | |
| Regular salaries | 192,000,000 | 195,800,000 | 155,622,955 | 40,177,045 |
| Personal services matching | 66,000,000 | 66,000,000 | 45,641,778 | 20,358,222 |
| Overtime | 10,000,000 | 6,200,000 | | 6,200,000 |
| Operating expenses | 353,004,000 | 317,727,438 | 238,308,543 | 79,418,895 |
| Conference fees and travel | 300,000 | 300,000 | 181,741 | 118,259 |
| Professional fees and services | 75,000,000 | 88,000,000 | 62,429,549 | 25,570,451 |
| Grants and aid | 6,375,000 | 8,371,393 | 3,473,502 | 4,897,891 |
| Claims | | 750,000 | 750,000 | |
| Capital outlay | 1,550,000,000 | 1,573,300,000 | 1,009,877,484 | 563,422,516 |
| Debt service | 95,000,000 | 117,000,000 | 64,027,853 | 52,972,147 |
| TOTAL EXPENDITURES | 2,347,679,000 | 2,373,448,831 | 1,580,313,405 | 793,135,426 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (748,639,000) | (774,408,831) | (120,015,250) | 654,393,581 |

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

| | General Fund | | | Variance With Final Budget Positive (Negative) |
|--|-----------------------|-----------------------|-------------------------|---|
| | Budgeted Amount | | Actual | |
| | Original | Final | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interagency transfers: | | | | |
| General revenue allocation | \$ 354,000 | \$ 354,000 | \$ 349,604 | \$ (4,396) |
| Rainy day fund (Act 1123 of 2017) | 41,500,000 | 41,500,000 | 20,000,000 | (21,500,000) |
| Federal funding | | | 332,220 | 332,220 |
| Interest | | | 34,845,645 | 34,845,645 |
| Marketing and redistribution sale proceeds | | | 23,438 | 23,438 |
| Other | | | (1,820,729) | (1,820,729) |
| Prior-year warrants outlawed and cancelled | | | 2,365,488 | 2,365,488 |
| | | | | |
| TOTAL OTHER FINANCING SOURCES (USES) | 41,854,000 | 41,854,000 | 56,095,666 | 14,241,666 |
| | | | | |
| NET CHANGE IN FUND BALANCES | (706,785,000) | (732,554,831) | (63,919,584) | 668,635,247 |
| | | | | |
| FUND BALANCES - JULY 1 | 1,235,397,240 | 1,235,397,240 | 1,235,397,240 | |
| | | | | |
| FUND BALANCES - JUNE 30 | <u>\$ 528,612,240</u> | <u>\$ 502,842,409</u> | <u>\$ 1,171,477,656</u> | <u>\$ 668,635,247</u> |

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2018

Exhibit D

| | Agency Funds |
|---|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 924,326 |
| Investments, at fair value - certificates of deposit | 960,312 |
| Accrued interest receivable | 264 |
| TOTAL ASSETS | \$ 1,884,902 |
| LIABILITIES | |
| Due to third parties: | |
| Employee group insurance | \$ 674,887 |
| Cafeteria plan | 60,493 |
| Right-of-way, utility and access drive permits, and bid depositors | 1,085,827 |
| Due to other funds | 25,000 |
| Due to other governments - drug forfeiture | 38,695 |
| TOTAL LIABILITIES | \$ 1,884,902 |

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The Agency's mission is to provide safe and efficient transportation solutions to support Arkansas's economy and enhance the quality of life for generations to come. 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. Act 707 of 2017 changed the Agency name from the Arkansas State Highway and Transportation Department to the Arkansas Department of Transportation.

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 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 DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 Proprietary and Fiduciary Fund financial statements. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in 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.

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and certificates of deposit totaling \$2,403,389, \$1,083,620,984, and \$960,312, 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.

ARKANSAS DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Deposits and Investments (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, 2018, none of the Agency's bank balance of \$4,317,905 was exposed to custodial credit risk.

Investments

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

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

The Agency has the following recurring fair value measurements as of June 30, 2018:

| Investment Type | Valuation Method | Amount |
|-----------------|------------------|---------------|
| Mutual funds | Level 1 | \$ 13,878,568 |

As of June 30, 2018, the Agency has the following investment balances and segmented maturities:

| Investment Type | Fair Value | Investment Maturities (In Years) | | | |
|-----------------|---------------|----------------------------------|-------|--------|--------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| Mutual funds | \$ 13,878,568 | \$ 13,878,568 | \$ 0 | \$ 0 | \$ 0 |

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, 2018, is as follows:

| Rating | Fair Value |
|--------|---------------|
| AAA | \$ 13,878,568 |

ARKANSAS DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

J. Fund Equity (continued)

Fund Balance (continued)

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.

A summary of the nature and purpose of each of these fund balance classifications as of June 30, 2018, is as follows:

| | Nonspendable Fund Balance | Spendable Fund Balance | |
|------------------|------------------------------|------------------------|----------------|
| | | Restricted | Committed |
| Prepaid expenses | \$ 1,599,869 | | |
| Inventories | 27,681,065 | | |
| Debt service | | \$ 13,878,568 | |
| Transportation | | 693,458,920 | \$ 434,793,678 |
| Other | | 65,556 | |
| Total | \$ 29,280,934 | \$ 707,403,044 | \$ 434,793,678 |

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 DEPARTMENT OF TRANSPORTATION
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2018
(UNAUDITED)

Schedule 1

| | For the Year Ended June 30, | | | | |
|--------------------------------------|-----------------------------|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| GENERAL FUND | | | | | |
| Total Assets | \$ 1,211,738,116 | \$ 1,269,342,482 | \$ 1,325,529,003 | \$ 1,374,676,677 | \$ 1,268,132,033 |
| Total Liabilities | 37,869,937 | 30,403,686 | 26,693,902 | 30,913,099 | 43,834,311 |
| Total Deferred Inflows of Resources | 2,390,523 | 3,541,556 | 3,658,278 | 2,546,896 | 2,294,149 |
| Total Fund Equity | 1,171,477,656 | 1,235,397,240 | 1,295,176,823 | 1,341,216,682 | 1,222,003,573 |
| Net Revenues | 1,460,298,155 | 1,476,707,816 | 1,237,434,908 | 1,196,166,477 | 1,216,644,340 |
| Total Expenditures | 1,580,313,405 | 1,595,770,343 | 1,296,083,787 | 1,334,869,156 | 1,282,618,059 |
| Total Other Financing Sources (Uses) | 56,095,666 | 59,282,944 | 12,609,020 | 257,915,787 | 709,889,115 |
| AGENCY FUNDS | | | | | |
| Total Assets | 1,884,902 | 1,858,278 | 1,346,050 | 1,041,990 | 1,179,941 |
| Total Liabilities | 1,884,902 | 1,858,278 | 1,346,050 | 1,041,990 | 1,179,941 |

ARKANSAS DEPARTMENT OF TRANSPORTATION
TEN-YEAR SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018 (1)
(UNAUDITED)

Schedule 2

| | 2018 | 2017 | 2016 | 2015 | 2014 to 2009 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|--------------|
| Total Pension Liability | | | | | N/A |
| Service cost | \$ 42,816,372 | \$ 18,935,319 | \$ 18,412,588 | \$ 16,862,918 | |
| Interest | 110,543,661 | 126,829,266 | 115,441,556 | 112,962,064 | |
| Benefit changes | (101,042,380) | | | | |
| Difference between expected and actual experience of the Total Pension Liability | (31,506,816) | 20,925,790 | 20,790,869 | | |
| Assumption changes | (137,435,476) | 790,989,712 | 91,940,822 | | |
| Benefit payments, including refunds of employee contributions | (111,904,597) | (106,755,840) | (102,245,806) | (95,454,598) | |
| Net changes in total pension liability | (228,529,236) | 850,924,247 | 144,340,029 | 34,370,384 | |
| Total pension liability - beginning | 2,480,200,334 | 1,629,276,087 | 1,484,936,058 | 1,450,565,674 | |
| Total pension liability - ending (a) | <u>\$ 2,251,671,098</u> | <u>\$ 2,480,200,334</u> | <u>\$ 1,629,276,087</u> | <u>\$ 1,484,936,058</u> | |
| Plan Fiduciary Net Position | | | | | |
| Employer contributions | \$ 19,175,401 | \$ 19,231,804 | \$ 19,059,012 | \$ 18,614,507 | |
| Employee contributions | 9,143,408 | 9,379,784 | 9,138,451 | 8,884,829 | |
| Net investment income | 133,167,344 | (60,344,122) | 25,383,756 | 234,208,606 | |
| Benefit payments, including refunds of employee contributions | (111,904,597) | (106,755,840) | (102,245,806) | (95,454,598) | |
| Administrative expense | (130,076) | (118,199) | (91,542) | (43,282) | |
| Net change in plan fiduciary net position | 49,451,480 | (138,606,573) | (48,756,129) | 166,210,062 | |
| Plan fiduciary net position - beginning | 1,304,869,720 | 1,443,476,293 | 1,492,232,422 | 1,326,022,360 | |
| Plan fiduciary net position - ending (b) | <u>\$ 1,354,321,200</u> | <u>\$ 1,304,869,720</u> | <u>\$ 1,443,476,293</u> | <u>\$ 1,492,232,422</u> | |
| Net pension liability (asset) - ending (a-b) | <u>\$ 897,349,898</u> | <u>\$ 1,175,330,614</u> | <u>\$ 185,799,794</u> | <u>\$ (7,296,364)</u> | |
| Plan fiduciary net position as a percentage of total pension liability | 60.15% | 52.61% | 88.60% | 100.49% | |
| Covered employee payroll (2) | \$ 141,154,763 | \$ 141,906,487 | \$ 140,544,393 | \$ 137,261,720 | |
| Net pension liability as a percentage of covered employee payroll | 635.72% | 828.24% | 132.20% | (5.32)% | |

Notes to Schedule

(1) Measurement date is as of the State's prior fiscal year-end date.

(2) The covered payroll is the reported salary for the fiscal year for active members (who are not in the DROP) as of the measurement date. If the reported salary was for a period of less than 12 months, it has been annualized.

N/A The Agency implemented GASB Statement No. 68 in fiscal year 2015. Information for the schedule was not available prior to this fiscal year.

ARKANSAS DEPARTMENT OF TRANSPORTATION
TEN-YEAR SCHEDULE OF AGENCY CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Schedule 3

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013 to 2009</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Statutorily determined contribution | \$ 19,294,283 | \$ 19,175,401 | \$ 19,231,804 | \$ 19,059,012 | \$ 18,614,507 | N/A |
| Contributions in relation to the statutorily determined contribution | <u>19,294,283</u> | <u>19,175,401</u> | <u>19,231,804</u> | <u>19,059,012</u> | <u>18,614,507</u> | |
| Contribution deficiency (excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | |
| | | | | | | |
| Covered employee payroll | \$ 148,527,851 | \$ 141,154,763 | \$ 141,906,487 | \$ 140,544,393 | \$ 137,261,720 | |
| Contributions as a percentage of covered employee payroll | 12.99% | 13.58% | 13.55% | 13.56% | 13.56% | |

Notes to Schedule

N/A The Agency implemented GASB Statement No. 68 in fiscal year 2015. Information for the schedule was not available prior to 2014.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(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 acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

| <u>Assets:</u> | <u>Years</u> |
|-------------------------------------|--------------|
| Equipment | 4-20 |
| Buildings and building improvements | 20-50 |
| Infrastructure | 10-30 |
| Other capital assets | 10-15 |

At June 30, 2018, the Agency had commitments related to planning, designing, and constructing infrastructure for roads and bridges totaling \$840,824,613.

Capital assets activity for the year ended June 30, 2018, was as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|-------------------------------|----------------------|------------------|----------------|-------------------|
| Governmental activities: | | | | |
| Land | \$ 739,006,247 | \$ 29,574,770 | \$ 320,526 | \$ 768,260,491 |
| Buildings and welcome centers | 138,243,336 | 18,078,926 | 3,422,011 | 152,900,251 |
| Equipment | 266,379,513 | 28,612,661 | 11,565,866 | 283,426,308 |
| Infrastructure | 15,011,871,217 | 608,952,653 | 59,080,625 | 15,561,743,245 |
| Construction in progress | 1,804,675,461 | 930,238,749 | 615,137,356 | 2,119,776,854 |
| Total governmental activities | \$ 17,960,175,774 | \$ 1,615,457,759 | \$ 689,526,384 | \$ 18,886,107,149 |

B. Pension Plan

Plan Description

The Arkansas State Highway Employees Retirement System (ASHERS), a single-employer, defined benefit pension plan administered by a seven-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.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

B. Pension Plan (continued)

Benefits Provided (continued)

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

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, 2017, the following employees were covered by the pension plan:

| | <u>Employees</u> |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 3,379 |
| Inactive employees entitled to but not yet receiving benefits | 217 |
| Active employees | 3,663 |
| Total | 7,259 |

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 Liability

At June 30, 2018, the Agency reported a net pension liability of \$897,349,898 with a measurement date of June 30, 2017, 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.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

B. Pension Plan (continued)

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, 2017 |
| Inflation rate | 2.50% |
| Salary increases (includes assumed inflation) | 3.5% to 10.5% |
| Investment rate of return (includes assumed inflation) | 8.00% |
| Mortality rates | Male: RP-2000 Combined Healthy for males with blue collar adjustments, scaled at 105% with no setback. Female: RP-2000 Combined Healthy for females with blue collar adjustments, scaled at 100% with no setback. |
| Actuarial experience study dates | July 1, 2008 - June 30, 2014, updated for the 2015 valuation |

Investment Rate of Return

The plan operates with an asset allocation of 20% to 80% equity and 20% to 80% 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 5.16% 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% and the municipal bond rate of 3.56% based on Fidelity's 20-Year Municipal General Obligation AA Index. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the projected future contribution rates assuming that ASHERS annually earns 8% on its market value of assets and that the number of active members remains constant in the future. 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 until 2045. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2045, and the municipal bond rate was applied to all benefit payments after that date.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

B. Pension Plan (continued)

Changes in Net Pension Liability

The following table provides the changes in net pension liability:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a-b) |
|---|-----------------------------------|---------------------------------------|-----------------------------------|
| Balances, June 30, 2016 | \$ 2,480,200,334 | \$ 1,304,869,720 | \$ 1,175,330,614 |
| Changes for the year: | | | |
| Service cost | 42,816,372 | | 42,816,372 |
| Interest | 110,543,661 | | 110,543,661 |
| Benefit changes | (101,042,380) | | (101,042,380) |
| Changes in assumptions | (137,435,476) | | (137,435,476) |
| Contributions - employer | | 19,175,401 | (19,175,401) |
| Contributions - employee | | 9,143,408 | (9,143,408) |
| Difference between expected and actual experience | (31,506,816) | | (31,506,816) |
| Net investment income (loss) | | 133,167,344 | (133,167,344) |
| Benefit payments, including refunds of employee contributions | (111,904,597) | (111,904,597) | |
| Administrative expense | | (130,076) | 130,076 |
| Net changes | (228,529,236) | 49,451,480 | (277,980,716) |
| Balances, June 30, 2017 | \$ 2,251,671,098 | \$ 1,354,321,200 | \$ 897,349,898 |

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:

| 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 |
| 4.16% | \$ 1,189,102,792 | 5.16% | \$ 897,349,898 | 6.16% | \$656,978,887 |

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Finance and Administration – Employee Benefits Division (DFA-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DFA-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 DFA-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DFA-EBD is included in the State of Arkansas’s Comprehensive Annual Financial Report (CAFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Finance and Administration, 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 DFA-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State’s annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

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

D. 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, 2018 and 2017, amounted to \$13,483,625 and \$12,598,559, respectively. The net changes to compensated absences payable during the year ended June 30, 2018, amounted to \$885,066.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

E. 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, 2018, are summarized as follows:

| | Balance June 30, 2017 | Additions | Reductions | Balance June 30, 2018 | Due within one year |
|--------------------------|--------------------------|-----------|---------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation | | | | | |
| bonds payable | \$ 927,695,000 | \$ 0 | \$ 47,940,000 | \$ 879,755,000 | \$ 50,270,000 |

General obligation bonds outstanding at June 30, 2018, are as follows:

| | Authorization | Final Maturity (Fiscal Year) | Interest Rates | Balance |
|---|--------------------------|---------------------------------|-------------------|-----------------------|
| 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% | \$ 138,420,000 |
| 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% | 126,640,000 |
| 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>156,800,000</u> |
| Total Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds | | | | <u>421,860,000</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>457,895,000</u> |
| Total General Obligation Bonds | | | | <u>\$ 879,755,000</u> |

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

E. Long-Term Liabilities – General Obligation Bonds (continued)

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2018, are summarized as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|-----------------------|-----------------------|-------------------------|
| 2019 | \$ 50,270,000 | \$ 36,760,975 | \$ 87,030,975 |
| 2020 | 84,165,000 | 34,277,350 | 118,442,350 |
| 2021 | 188,075,000 | 30,371,725 | 218,446,725 |
| 2022 | 197,510,000 | 20,934,725 | 218,444,725 |
| 2023 | 204,600,000 | 13,835,675 | 218,435,675 |
| 2024-2027 | 155,135,000 | 11,671,025 | 166,806,025 |
| Totals | <u>\$ 879,755,000</u> | <u>\$ 147,851,475</u> | <u>\$ 1,027,606,475</u> |

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. No bonds were issued under the authority of this Amendment in the 2018 fiscal year.

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 2014 through 2018 and projected amounts for fiscal years 2019 through 2023 are as follows (expressed in thousands):

| Revenues and Apportionments | | | Projected Revenues and Apportionments | | |
|-----------------------------------|--------------------------------------|---------------------|---------------------------------------|--------------------------------------|---------------------|
| Fiscal Year Ending June 30, | Additional Diesel Tax Revenues | Apportioned FIMF | Fiscal Year Ending June 30, | Additional Diesel Tax Revenues | Apportioned FIMF |
| 2014 | \$ 16,206 | \$ 93,325 | 2019 | \$ 16,500 | \$ 105,135 |
| 2015 | 16,315 | 97,303 | 2020 | 16,500 | 107,238 |
| 2016 | 16,730 | 99,311 | 2021 | 16,500 | 109,383 |
| 2017 | 17,534 | 100,927 | 2022 | 16,500 | 111,571 |
| 2018 | 18,039 | 103,074 | 2023 | 16,500 | 113,802 |

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

E. Long-Term Liabilities – General Obligation Bonds (continued)

Four-Lane Highway Construction and Improvement General Obligation Bonds

Amendment 91 to the Arkansas Constitution, which was 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. No bonds were issued under the authority of this Amendment in the 2018 fiscal year. The bonds are payable primarily from a temporary 1/2 cent sales and use tax authorized by the Amendment. Revenues collected and designated for the repayment of the bonds during fiscal years 2014 through 2018 are as follows (expressed in thousands):

| Fiscal Year Ending June 30, | Sales Tax Collections |
|--------------------------------|--------------------------|
| 2014 | \$ 151,253 |
| 2015 | 165,449 |
| 2016 | 171,611 |
| 2017 | 175,419 |
| 2018 | 187,427 |