ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT

Annual Financial Report

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS

OTHER INFORMATION

Arkansas

Sen. Jimmy Hickey, Jr.
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Sen. Linda Chesterfield
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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, 2014, 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 estimates made by management, as well as evaluating the overall financial statement 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, 2014, 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, 2014, 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.

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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 is presented for the purpose of additional analysis and is not a required part of the departmental financial statements.

The Schedule of Selected Information has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2015, 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 the 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 Norman

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

Little Rock, Arkansas
August 19, 2015
SA0509014

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair

Rep. Mary Broadaway
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 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, 2014, 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 August 19, 2015.

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 over financial reporting that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2014-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

SCHEDULE OF FINDINGS AND RESPONSES

2014-1 A review of time practices conducted by the Agency's Internal Audit Section revealed that, during their respective tenures as Head of the Human Resources Division (the "Division"), Jane Wilson, Melba Shephard, and Crystal Woods allowed Division staff to be paid inappropriately for absences from work. The review, completed in January 2015, revealed that this practice has been allowed since before calendar year 2000 but was ended by current Division Head Crystal Woods after July 4, 2010. Generally, an employee from each section of the Division was inappropriately allowed to take paid time off before a holiday based on a rotating schedule or by winning a game, such as guessing the number of marbles in a jar. The Agency's interviews with current staff and analysis of available payroll records for the period November 2006 to December 2010 indicated that Division employees were paid for 359 hours for which they did not perform job duties. The Agency estimates the total cost of this time to be $5,960 based on the salaries authorized for the positions involved. According to the Agency, available records are not reliable enough to extend the estimate to a time before November 2006. Ms. Woods fully cooperated with Internal Audit during the review and served a 13-day suspension without pay. Ms. Woods' annual salary is $119,054, and the suspension resulted in a loss of income to Ms. Woods and salary savings to the Agency totaling $5,953.

We recommend Agency employees continue to receive periodic notification and/or training regarding Agency policies for work and leave time. In addition, Agency management should continue to hold supervisors accountable for adequately monitoring and holding employees accountable for compliance with these policies.

Management personnel provided the following response:

The Agency objects to the inclusion of the finding in the audit report. The finding involves an improper practice that was discovered, researched, and handled internally at the AHTD. The practice in question – granting unauthorized paid time off – ended in 2010.

The improper practice came to light during preparations for an unrelated lawsuit. Once depositions revealed that some AHTD employees might have been paid for time not worked, an internal review was initiated. The initial review, conducted by our Chief Auditor, confirmed the practice did occur on a limited basis over an extended period of time. A subsequent review by our Human Resources Division quantified the documented and verifiable occurrences. This information was then used to determine the appropriate disciplinary action against the supervisor who allowed this practice to take place.

It should be noted that, after this practice was terminated and prior to it coming to light, a policy was implemented to bring uniformity and accountability to hours worked and time off granted by supervisors. The Department has also implemented a Workforce Management System to provide more accurate reporting of time and labor activities, and more accountability from both employees and supervisors. All supervisors and employees have been trained in timekeeping and leave policies, and this training will continue on a regular basis.

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Jon Moore

Jon Moore, CPA, CFE, CFF
Deputy Legislative Auditor

Little Rock, Arkansas
August 19, 2015

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT

Exhibit A

BALANCE SHEET – GOVERNMENTAL FUND

JUNE 30, 2014

	General Fund
ASSETS	
Cash and cash equivalents	$ 612,951,316
Investments	560,556,365
Receivable, net:	
Accounts	2,021,055
Taxes	28,195,506
Damage settlement claims	1,170,501
Due from other funds	25,000
Due from other state agencies	4,936,463
Due from other governments	41,218,318
Prepaid items	1,175,058
Inventories	15,882,451
TOTAL ASSETS	$ 1,268,132,033
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable:	
Vendors	$ 3,867,909
Construction contracts	31,787,957
Contracts retainage	1,613,446
Accrued payroll	3,055,733
Due to other state agencies	3,509,266
Total Liabilities	43,834,311
Deferred inflows of resources:	
Related to revenues	2,294,149
Fund balance:	
Nonspendable for:	
Prepaid items	1,175,058
Inventories	15,882,451
Restricted for:	
Debt service	75,301,189
Program requirements	65,529
Transportation programs	618,901,485
Committed for transportation programs	510,677,861
Total Fund Balance	1,222,003,573
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 1,268,132,033

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT

Exhibit B

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

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund
REVENUES	
Motor user taxes and fees:	
Four-lane highway sales and use tax	$ 156,414,886
Motor fuel	313,174,196
Natural gas severance	50,452,536
Vehicle registration	84,716,439
Overload permits and penalties	17,697,301
Other	14,058,382
Federal grants and reimbursements	575,618,523
Investment earnings	1,319,981
Other sales, refunds, and reimbursements	23,478,448
TOTAL REVENUES	1,236,930,692
Less: State Treasury service charge	20,286,352
NET REVENUES	1,216,644,340
EXPENDITURES	
Personal services - payroll	148,076,932
Employee benefits - matching	43,650,834
Communication and transportation of commodities	1,073,367
Printing and advertising	244,464
Repairing and servicing	20,491,224
Utilities and rent	4,106,051
Travel and subsistence	3,558,876
Professional services	32,806,733
Insurance and bonds	195,438
Other expenses and services	4,175,441
Commodities, materials, and supplies	57,137,060
Assistance, grants, and aid	136,022,465
Refunds, taxes, and claims	1,880,594
Debt service:	
Principal	73,825,000
Interest	28,903,664
Bond issuance cost	1,694,156
Paying agent fees	6,700
Low-value asset purchases	2,672,029
Capital outlay	722,097,031
TOTAL EXPENDITURES	1,282,618,059
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(65,973,719)

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT

Exhibit B

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund
OTHER FINANCING SOURCES (USES)	
Issuance of debt	$ 640,360,000
Bond premiums	54,367,966
Interagency transfers:	
General revenue allocation	2,176,318
Securities Reserve Fund	3,686,031
State Police - Alcohol Open Container Requirements - federal	10,569,394
Department of Emergency Management - Public Assistance Disaster Grants - federal	130,543
Marketing and redistribution sale proceeds	21,280
Noncontroversial claims	(100,934)
Other	(2,146,013)
Prior-year warrants outlawed and cancelled	824,530
TOTAL OTHER FINANCING SOURCES (USES)	709,889,115
NET CHANGE IN FUND BALANCE	643,915,396
FUND BALANCE - JULY 1	578,088,177
FUND BALANCE - JUNE 30	$ 1,222,003,573

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT — Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Special revenue	$ 706,800,000	$ 706,800,000	$ 637,254,243	$ (69,545,757)
Federal grants and reimbursements	568,600,000	568,600,000	575,618,523	7,018,523
Other sales, refunds, and reimbursements	47,250,000	47,250,000	24,057,926	(23,192,074)
TOTAL REVENUES	1,322,650,000	1,322,650,000	1,236,930,692	(85,719,308)
Less: State Treasury service charge			20,286,352	(20,286,352)
NET REVENUES	1,322,650,000	1,322,650,000	1,216,644,340	(106,005,660)
EXPENDITURES				
Regular salaries	181,820,100	187,320,100	148,076,932	39,243,168
Personal services matching	58,540,730	58,540,730	43,238,303	15,302,427
Overtime	7,000,000	1,500,000		1,500,000
Operating expenses	309,104,000	311,126,573	229,427,769	81,698,804
Conference fees and travel	250,000	250,000	155,252	94,748
Professional fees and services	60,000,000	60,000,000	32,744,348	27,255,652
Grants and aid	2,850,000	2,172,318	2,172,318	
Claims		226,159	226,159	
Capital outlay	1,319,860,000	1,269,860,000	722,147,458	547,712,542
Debt service	95,000,000	145,000,000	104,429,520	40,570,480
TOTAL EXPENDITURES	2,034,424,830	2,035,995,880	1,282,618,059	753,377,821
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(711,774,830)	(713,345,880)	(65,973,719)	647,372,161
OTHER FINANCING SOURCES (USES)				
Issuance of debt, net of bond premiums	350,000,000	350,000,000	694,727,966	344,727,966
Interagency transfers:				
General revenue allocation	2,854,000	2,854,000	2,176,318	(677,682)
Securities Reserve Fund	4,000,000	4,000,000	3,686,031	(313,969)
State Police - Alcohol Open Container Requirements - federal			10,569,394	10,569,394
Department of Emergency Management - Public Assistance Disaster Grants - federal			130,543	130,543
Marketing and redistribution sale proceeds			21,280	21,280
Noncontroversial claims			(100,934)	(100,934)
Other			(2,146,013)	(2,146,013)
Prior-year warrants outlawed and cancelled			824,530	824,530
TOTAL OTHER FINANCING SOURCES (USES)	356,854,000	356,854,000	709,889,115	353,035,115

Exhibit C

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund			
	Budgeted Amount			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
NET CHANGE IN FUND BALANCES	$(354,920,830)	$(356,491,880)	$ 643,915,396	$1,000,407,276
FUND BALANCES - JULY 1	578,088,177	578,088,177	578,088,177	
FUND BALANCES - JUNE 30	$ 223,167,347	$ 221,596,297	$1,222,003,573	$1,000,407,276

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

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT Exhibit D
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2014

		Agency Funds
ASSETS		
Cash and cash equivalents	$	314,658
Investments, at fair value - certificates of deposit		865,000
Accrued interest receivable		283
TOTAL ASSETS	$	1,179,941
LIABILITIES		
Due to third parties:		
Employee group insurance	$	56,375
Cafeteria plan		14,283
Right-of-way, utility and access drive permits, and bid depositors		1,045,685
Due to other funds		25,000
Due to other governments - drug forfeiture		38,598
TOTAL LIABILITIES	$	1,179,941

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

The Agency's mission 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 are recognized in the accompanying financial statements.

Governmental Funds

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

Fiduciary Funds

Trust and Agency Funds – Funds 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 may 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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. 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. Estimated useful lives generally assigned are as follows:

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

At June 30, 2014, the Agency has commitments related to planning, designing, and constructing infrastructure for roads and bridges totaling $652 million.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2014, was as follows (expressed in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 581,142	$ 34,415	$ 597	$ 614,960
Buildings and welcome centers	120,976	10,093	99	130,970
Equipment	210,893	23,227	9,245	224,875
Infrastructure	12,468,783	694,067	89,971	13,072,879
Construction in progress	1,502,214	662,327	694,971	1,469,570
Total governmental activities	$ 14,884,008	$ 1,424,129	$ 794,883	$ 15,513,254

F. Deposits and Investments

State Board of Finance Policies

Ark. Code Ann. § 19-4-805 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. The State Board of Finance promulgated cash management, collateralization, and investment 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 $819,569, $612 million, and $865,000, 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Deposits (Continued)

Custodial Credit Risk – 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, 2014, none of the Agency's bank balance of $2 million 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 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, 2014, the Agency has the following investment balances and segmented maturities (expressed in thousands):

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Mutual funds	$ 167,851	$ 167,851			
U.S. treasuries	392,705	112,070	$ 280,635		
Total	$ 560,556	$ 279,921	$ 280,635	$ 0	$ 0

Interest Rate Risk – 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 50% of the Agency's investment maturities are one year or longer.

Credit Risk – 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, 2014, is as follows (expressed in thousands):

Rating	Fair Value
AAA	$ 560,556

G. Interfund Balances and Transfers

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Inventories

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

I. Prepaid Expenses

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

J. Deferred 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.

K. Pension Plan

Plan Description - The Agency contributes to the Arkansas State Highway Employees Retirement System (ASHERS), a single-employer defined benefit pension plan administered by the ASHERS Board of Trustees. ASHERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of ASHERS as published in Chapter 5 of Title 24 of the Arkansas Code Annotated. 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.

Funding Policy - Employees are required to contribute 6% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 12.9% of annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the Arkansas General Assembly. The Agency's annual pension cost for the current year and related information for the plan are as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. Pension Plan (Continued)

Funding Policy (Continued)

Current Year Contribution Rates, Pension Cost, and Actuarial Assumptions

Contribution rates: [1]	
Employer	12.90%
Employee	6.00%
Annual pension cost (expressed in thousands)	$18,615
Contributions made (expressed in thousands)	$18,615
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period[1]	23.2 years
Asset valuation method	5-year smoothing market
Actuarial assumptions:	
Inflation rate	3.50%
Investment rate of return (includes assumed inflation)	8.00%
Projected salary increases (includes assumed inflation)	4.50% - 11.50%
Post-retirement benefit increases (cost of living adjustments)	3.00% compounded

[1] Employee and employer contribution rates are established by Ark. Code Ann. §§ 24-5-108 and 24-5-109, respectively. The rates are intended to be sufficient to pay normal cost and amortize the unfunded actuarial accrued liability (UAAL) in level payments (as a percentage of payroll) over a period of 30 years or less from the valuation date. The amortization period for the current contribution rates is less than 30 years, as calculated and reported by the Plan's actuary in accordance with GASB Statement 67; therefore, the financing objectives are currently being met.

Funding Progress (expressed in thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2014	$ 1,349,500	$ 1,485,000	$ 135,500	90.9%	$ 137,262	98.7%
2013	1,275,200	1,404,500	129,300	90.8%	131,700	98.2%
2012	1,230,000	1,374,000	144,000	89.5%	131,000	109.9%
2011	1,227,700	1,342,700	115,000	91.4%	129,000	89.1%
2010	1,199,400	1,305,000	105,600	91.9%	127,000	83.2%

Annual Pension Cost and Net Pension Obligation (expressed in thousands)

Year Ended June 30,	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation (NPO)[2]
2014	$ 18,615	100.0%	$ 0
2013	19,327	93.4%	1,274
2012	17,936	100.0%	0
2011	17,661	100.0%	0
2010	17,999	100.0%	0

[2] For the year ended June 30, 2013, the NPO represents the difference between actual contributions and required contributions needed to amortize the unfunded actuarial accrued liability (UAAL) over a 30-year period, as calculated by the Plan's actuary. Actual employer contributions were equal to required rates established by Ark. Code Ann. § 24-5-109 for all years presented.

NOTE 1: Summary of Significant Accounting Policies (Continued)

L. 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.

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.

M. 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

N. 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.

Liabilities for compensated absences are determined at the end of the fiscal year based on current salary rates. 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, 2014 and 2013, amounted to $12.0 million and $12.9 million, respectively. The net changes to compensated absences payable during the year ended June 30, 2014, amounted to ($818,894).

NOTE 2: 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.

NOTE 2: Long-Term Liabilities - General Obligation Bonds (Continued)

Changes in long-term liabilities for general obligation bonds for the year ended June 30, 2014, are summarized as follows (expressed in thousands):

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Governmental activities:					
General obligation bonds payable	$ 337,335	$ 640,360	$ 73,825	$ 903,870	$ 85,990

General obligation bonds outstanding at June 30, 2014, are as follows (balance expressed in thousands):

	Authorization	Final Maturity (Fiscal Year)	Interest Rates	Balance
Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds:				
2010 series, advance refunding - $253 million issued in fiscal year 2010 to defease 2000A, 2001A, and 2002 bond series in fiscal years 2010 and 2011; accordingly, the notes to the financial statements do not include disclosures to irrevocable trust account assets and liabilities for the defeased bonds.	Act 1027 of 1999	2015	2.5% - 5.0%	$ 71,505
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%	197,005
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%	171,465
Total Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds				439,975
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%	463,895
Total General Obligation Bonds				$ 903,870

NOTE 2: Long-Term Liabilities - General Obligation Bonds (Continued)

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2014, are summarized as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2015	$ 85,990	$ 36,292	$ 122,282
2016	29,530	33,730	63,260
2017	31,940	32,297	64,237
2018	33,455	30,741	64,196
2019	35,050	29,109	64,159
2020 - 2024	646,875	79,746	726,621
2025 - 2029	41,030	1,401	42,431
Totals	$ 903,870	$ 243,316	$1,147,186

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

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds

Act 1027 of 1999 and a statewide election conducted June 15, 1999, 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 Act limited the total principal amount to $575 million to be issued in several series of various principal amounts. Proceeds are to be used for reconstructing and renovating interstate highways and related facilities and for refunding bonds previously issued pursuant to the Act. No bonds were issued under the authority of this Act in the 2014 fiscal year.

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 November 1, 2013, $171 million in bonds were issued under the authority of this Act.

Bonds issued under the authority of Act 1027 of 1999 and 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 2010 through 2014 and projected amounts for fiscal years 2015 through 2019, are as follows (expressed in thousands):

NOTE 2: Long-Term Liabilities - General Obligation Bonds (Continued)

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds (Continued)

Revenues and Apportionments

			Projected		
Fiscal Year Ending June 30,	Additional Diesel Tax Revenues	Apportioned FIMF	Fiscal Year Ending June 30,	Additional Diesel Tax Revenues	Apportioned FIMF
2010	$ 16,087	$ 95,414	2015	$ 16,500	$ 96,547
2011	16,705	101,656	2016	16,500	97,995
2012	16,548	95,115	2017	16,500	98,877
2013	16,344	98,100	2018	16,500	99,866
2014	16,206	94,972	2019	16,500	101,364

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 2014 fiscal year designated for the repayment of bonds totaled $151 million. On October 1, 2013, $469 million in bonds were issued under the authority of this Amendment.

NOTE 3: Subsequent Events

A. Long-Term Liabilities - 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. 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. The bonds will be financed by future federal interstate maintenance funds, state matching for these funds, and a 4 cent per gallon diesel fuel tax. On December 1, 2014, $207 million in bonds were issued under the authority of this Act.

B. Federal Funding

Without additional action from the United States Congress, the Federal Highway Trust Fund is projected to fall to critical levels before the end of December 2015. This may force the Federal Highway Administration to reduce reimbursements to states. As a result, the Arkansas State Highway and Transportation Department has implemented cash management procedures to protect cash flow, including withdrawing 75 construction projects estimated to cost of $335 million from scheduled bid openings in state fiscal year 2015. In addition, the Governor has created a task force with a deadline of December 15, 2015, to provide recommendations for a more reliable, modern, and effective system of highway funding.

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT Schedule 1
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2014
(Unaudited)

	For the Year Ended June 30,				
	2014	2013	2012	2011	2010
GENERAL FUND					
Total Assets	$1,268,132,033	$ 627,737,427	$ 488,568,211	$ 487,659,496	$ 550,409,867
Total Liabilities	43,834,311	49,649,250	44,683,873	47,099,195	42,343,351
Total Deferred Inflows of Resources	2,294,149				
Total Fund Equity	1,222,003,573	578,088,177	443,884,338	440,560,301	508,066,516
Net Revenues	1,216,644,340	1,044,997,375	1,068,242,896	1,023,313,912	955,333,476
Total Expenditures	1,282,618,059	1,154,267,369	1,075,082,124	1,107,917,058	885,676,367
Total Other Financing Sources (Uses)	709,889,115	243,473,833	10,163,265	17,096,931	101,271,016
AGENCY FUNDS					
Total Assets	1,179,941	1,125,370	1,409,469	1,760,639	2,274,717
Total Liabilities	1,179,941	1,125,370	1,409,469	1,760,639	2,274,717