

ARKANSAS DEPARTMENT OF TRANSPORTATION

Annual Financial Report

June 30, 2021



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Arkansas



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

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

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

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

INDEPENDENT AUDITOR'S REPORT

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, 2021, 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, and the aggregate remaining fund information of the Arkansas Department of Transportation as of June 30, 2021, 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 of Arkansas as of June 30, 2021, 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. Also, as discussed in Note 2 to the financial statements, in 2021 the Department adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to these matters.

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 October 27, 2022, 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
October 27, 2022
SA0509021

Arkansas



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

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

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

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, 2021, 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 October 27, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses below as items 2021-2 and 2021-3, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described below in the Schedule of Findings and Responses as item 2021-1.

SCHEDULE OF FINDINGS AND RESPONSES

- 2021-1 The Agency failed to notify Arkansas Legislative Audit (ALA), as required by Ark. Code Ann. § 25-1-124, of the apparent unauthorized disbursement, theft, or misappropriation of public funds as follows:
- Twenty-three duplicate payments totaling \$7,074,055 were made during the fiscal year, with \$568,004 unrecovered as of the end of field work.
 - An individual was suspected of not recording leave time while performing duties related to a personal business.
- We recommend the Agency establish procedures to ensure ALA is notified of an apparent loss of public funds, in compliance with Arkansas Code.
- Management response:** *The Department has procedures in place to monitor for any apparent loss of public funds and notify Arkansas Legislative Audit (ALA) when appropriate. Based on this finding, the Department has revised our interpretation of A.C.A. § 25-1-124. Failure to notify ALA will not be an issue in the future.*
- The majority of the twenty-three duplicate payments were a result of initial issues with the implementation of ARDOT's new Enterprise-wide Accounting Software system. The Department has, and will continue to enhance verification processes to ensure this issue is not repeated.*
- The Department has recovered \$6,506,051, of the duplicate payments. The \$568,004 unrecovered, as of the end of fieldwork, has been turned over to the Department's Legal Division for collection against the entities Performance Bond.*
- 2021-2 Sound internal controls require that receipts and deposits be reconciled monthly and deposited at least weekly. Review of receipting revealed the following:
- The Agency failed to perform reconciliations of receipts between the Arkansas Administrative Statewide Information System (AASIS) and the Agency's general ledger to ensure all entries were properly posted in AASIS.
 - On 19 different occasions, the Agency failed to make deposits timely once monies reached the fiscal section from divisions within the Agency.
- We recommend the Agency establish proper controls over receipting.
- Management response:** *Fiscal Services is developing a formal process to reconcile receipts recorded in the internal accounting system with AASIS.*
- The 19 receipts referenced were secured in a safe awaiting deposit. Department management has reiterated to staff the importance of timely deposits of checks and will monitor deposit activity to identify delays in future deposits.*
- 2021-3 A properly designed and implemented control structure dictates that responsibilities over cash management be divided such that one individual does not have the authorization, custody, and records of a bank account. The Agency had inadequate control over cash transactions; specifically, an employee with check-signing responsibilities also performed reconciliations of the Escrow Account.
- We recommend the Agency establish controls to ensure proper segregation of duties over bank accounts.
- Management response:** *During COVID, the employee responsible for reconciliation was signing checks, as a required second signer, when no other second signer was available. There have not been any questionable transactions in this account. The Department has added another employee to monitor the account, in addition to the reconciliation. Going forward, full reconciliation responsibility will not be part of the check signer's responsibility.*

Agency's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
October 27, 2022

ARKANSAS DEPARTMENT OF TRANSPORTATION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2021

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,021,927,579
Investments	9,183,087
Receivable, net:	
Accounts	3,801,723
Taxes	36,410,884
Damage settlement claims	629,240
Accrued interest	313
Due from other state agencies	9,672,365
Due from other governments	50,946,635
Prepaid items	2,458,042
Inventories	30,605,461
TOTAL ASSETS	\$ 1,165,635,329
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable:	
Vendors	\$ 8,363,397
Construction contracts	20,930,037
Grants	1,349,743
Accrued and other current liabilities	7,062,016
Unearned revenues	91,323
Due to third parties - right of way, utility permits, and bid depositors	1,626,038
Due to other state agencies	3,715,430
Total Liabilities	43,137,984
Deferred inflows of resources:	
Related to revenues	35,678,389
Fund balance:	
Nonspendable for:	
Prepaid items	2,458,042
Inventories	30,605,461
Restricted	618,679,314
Committed	435,076,139
Total Fund Balance	1,086,818,956
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,165,635,329

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, 2021

Exhibit B

	General Fund
REVENUES	
Motor user taxes and fees:	
Four-lane highway sales and use tax	\$ 231,377,501
Motor fuel	354,946,262
Natural gas severance	13,084,926
Vehicle registration	98,821,690
Overload permits and penalties	15,469,160
Other	41,262,932
Casino gaming tax	5,599,085
Grants and reimbursements	24,511,052
Federal grants and reimbursements	803,552,463
Investment earnings	471,442
Miscellaneous	12,603,566
TOTAL REVENUES	1,601,700,079
Less: State Treasury service charge	16,575,229
NET REVENUES	1,585,124,850
EXPENDITURES	
Salary and benefits	227,027,147
Communication and transportation of commodities	2,131,030
Printing and advertising	939,145
Repairing and servicing	30,362,731
Utilities and rent	5,198,562
Travel and subsistence	3,402,136
Professional services	57,470,855
Insurance and bonds	440,677
Other expenses and services	3,888,589
Commodities, materials, and supplies	68,824,206
Assistance, grants, and aid	350,091,239
Refunds, taxes, and claims	2,146,093
Debt service:	
Principal	188,075,000
Interest	30,371,725
Low value asset purchases	3,850,867
Capital outlay	882,098,200
TOTAL EXPENDITURES	1,856,318,202
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(271,193,352)

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit B

	<u>General Fund</u>
OTHER FINANCING SOURCES (USES)	
Interagency transfers in (out):	
Arkansas Highway Transfer Fund	\$ 79,628,614
Interest	24,384,099
Other, net	(1,026,871)
Bond issuance costs	(2,561,189)
Prior-year adjustments	12,503
TOTAL OTHER FINANCING SOURCES (USES)	100,437,156
NET CHANGE IN FUND BALANCE	(170,756,196)
FUND BALANCE - JULY 1	1,257,575,152
FUND BALANCE - JUNE 30	\$ 1,086,818,956

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, 2021

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Motor user taxes and fees	\$ 718,940,000	\$ 718,940,000	\$ 754,962,471	\$ 36,022,471
Grants and reimbursements	66,629,000	66,629,000	24,511,052	(42,117,948)
Federal grants and reimbursements	900,000,000	900,000,000	803,552,463	(96,447,537)
Investment earnings			471,442	471,442
Miscellaneous			18,202,651	18,202,651
TOTAL REVENUES	1,685,569,000	1,685,569,000	1,601,700,079	(83,868,921)
Less: State Treasury service charge			16,575,229	(16,575,229)
NET REVENUES	1,685,569,000	1,685,569,000	1,585,124,850	(100,444,150)
EXPENDITURES				
Regular salaries	200,000,000	205,600,000	182,312,900	23,287,100
Extra help	10,000,000	4,400,000		4,400,000
Operating expenses	318,004,000	260,530,688	121,175,949	139,354,739
Personal services matching	70,000,000	70,000,000	44,714,247	25,285,753
Grants and aid	47,875,000	560,073,874	350,091,239	209,982,635
Conference fees and travel	300,000	300,000	8,087	291,913
Professional fees and services	85,000,000	110,000,000	57,470,855	52,529,145
Capital outlay	2,100,000,000	1,413,488,751	882,098,200	531,390,551
Debt service	75,000,000	232,000,000	218,446,725	13,553,275
TOTAL EXPENDITURES	2,906,179,000	2,856,393,313	1,856,318,202	1,000,075,111
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,220,610,000)	(1,170,824,313)	(271,193,352)	899,630,961
OTHER FINANCING SOURCES (USES)				
Interagency transfers in (out):				
Arkansas Highway Transfer Fund	68,000,000	68,000,000	79,628,614	11,628,614
Interest			24,384,099	24,384,099
Other, net			(1,026,871)	(1,026,871)
Bond issuance costs			(2,561,189)	(2,561,189)
Prior-year adjustments			12,503	12,503
TOTAL OTHER FINANCING SOURCES (USES)	68,000,000	68,000,000	100,437,156	32,437,156
NET CHANGE IN FUND BALANCE	(1,152,610,000)	(1,102,824,313)	(170,756,196)	932,068,117
FUND BALANCE - JULY 1	1,257,575,152	1,257,575,152	1,257,575,152	
FUND BALANCE - JUNE 30	\$ 104,965,152	\$ 154,750,839	\$ 1,086,818,956	\$ 932,068,117

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021

Exhibit D

	<u>Custodial Funds</u>
ASSETS	
Cash and cash equivalents	\$ 772,685
LIABILITIES	
Due to third parties:	
Employee group insurance	\$ 587,640
Cafeteria plan	142,270
Due to other governments - drug forfeiture	<u>42,775</u>
TOTAL LIABILITIES	<u>\$ 772,685</u>
NET POSITION	
TOTAL NET POSITION	<u>\$ 0</u>

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

Exhibit E

	<u>Custodial Funds</u>
ADDITIONS	
Beneficiary deposits	\$ 32,455,701
Investment earnings	816
TOTAL ADDITIONS	32,456,517
 DEDUCTIONS	
Beneficiary withdrawals/payments	32,456,517
Net position - beginning	_____
Net position - ending	\$ 0

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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.

Arkansas Constitution Amendment 42 was adopted by voters in November 1952 and created the current Arkansas State Highway Commission (the "Commission"). Arkansas Constitution Amendment 42 and Arkansas Code Annotated 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 Custodial Funds – Trust and Custodial 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 Custodial Funds. The specific activity accounted for at this Agency includes the following:

Custodial 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) 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, 2021

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 \$1,441,125, \$1,021,253,989, and \$1,480,000, 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.

ARKANSAS DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021, none of the Agency's bank balance of \$2,990,381 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, 2021:

Investment Type	Valuation Method	Amount
Mutual funds	Level 1	\$ 9,183,087

As of June 30, 2021, 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	\$ 9,183,087	\$ 9,183,087	\$ 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, 2021 is as follows:

Rating	Fair Value
AAA	\$ 9,183,087

ARKANSAS DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021

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.

When more than one spendable classification is available for use, it is the State’s policy to use the resources in this order: restricted, committed, assigned, and unassigned.

A summary of the nature and purpose of each of these fund balance classifications as of June 30, 2021, is as follows:

	Nonspendable Fund Balance	Spendable Fund Balance	
		Restricted	Committed
Prepaid expenses	\$ 2,458,042		
Inventories	30,605,461		
Debt service		\$ 7,703,087	
Transportation		610,910,652	\$ 425,666,199
Program requirements			9,409,940
Other		65,575	
Total	\$ 33,063,503	\$ 618,679,314	\$ 435,076,139

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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2: Implementation of GASB Statement No. 84

The State implemented GASB Statement No. 84, *Fiduciary Activities*, in the fiscal year ended June 30, 2021. GASB Statement No. 84 is required to be implemented retroactively for the cumulative effects of implementation. GASB Statement No. 84 establishes specific criteria for identifying fiduciary activities. All activities meeting these criteria should now present a statement of fiduciary net position and a statement of changes in fiduciary net position. Under GASB Statement No. 84, a liability to the beneficiaries should only be recognized when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. Another significant change was the renaming of agency funds to custodial funds.

NOTE 3: Commitments and Contingencies

On May 21, 2021, the Agency was ordered to pay legal fees of \$18.2 million to plaintiff attorneys related to the Amendment 91 funding lawsuit, which has been settled. The order for the legal fees is currently on appeal with the Arkansas Supreme Court.

On December 1, 2022, the Arkansas Supreme Court ruled that attorneys are not authorized to receive payment in an illegal-exaction lawsuit, thus reversing the circuit court decision requiring the Agency to pay attorneys' fees.

ARKANSAS DEPARTMENT OF TRANSPORTATION
SCHEDULE OF SELECTED INFORMATION
JUNE 30, 2021
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2021	2020	2019	2018	2017
General Fund					
Total Assets	\$ 1,165,635,329	\$ 1,292,005,930	\$ 1,337,361,988	\$ 1,211,738,116	\$ 1,269,342,482
Total Liabilities	43,137,984	32,471,244	33,053,853	37,869,937	30,403,686
Total Deferred Inflows of Resources	35,678,389	1,959,534	2,621,814	2,390,523	3,541,556
Total Fund Equity	1,086,818,956	1,257,575,152	1,301,686,321	1,171,477,656	1,235,397,240
Net Revenues	1,585,124,850	1,296,130,334	1,274,628,173	1,460,298,155	1,476,707,816
Total Expenditures	1,856,318,202	1,431,509,873	1,285,199,111	1,580,313,405	1,595,770,343
Total Other Financing Sources (Uses)	100,437,156	91,268,370	140,779,602	56,095,666	59,282,944
Custodial Funds					
Total Assets	772,685	1,845,679	1,835,216	1,884,902	1,858,278
Total Liabilities	772,685	1,845,679	1,835,216	1,884,902	1,858,278

ARKANSAS DEPARTMENT OF TRANSPORTATION
TEN-YEAR SCHEDULE OF CHANGES IN NET POSITION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2021
(UNAUDITED)

Schedule 2

	2021	2020	2019	2018	2017	2016	2015	2014	2013 to 2012
Total Pension Liability									N/A
Service cost	\$ 20,916,486	\$ 19,568,869	\$ 19,699,067	\$ 23,601,075	\$ 42,816,372	\$ 18,935,319	\$ 18,412,588	\$ 16,862,918	
Interest	133,728,922	127,936,561	128,527,434	113,808,845	110,543,661	126,829,266	115,441,556	112,962,064	
Benefit changes	(21,617,039)		(21,398,912)		(101,042,380)				
Difference between expected and actual experience of the Total Pension Liability	(33,301,030)	(8,753,212)	26,324,123	49,165,072	(31,506,816)	20,925,790	20,790,869		
Assumption changes	(15,094,440)		(216,056,489)	(331,139,733)	(137,435,476)	790,989,712	91,940,822		
Benefit payments, including refunds of employee contributions	(125,736,705)	(122,789,638)	(119,412,266)	(115,747,730)	(111,904,597)	(106,755,840)	(102,245,806)	(95,454,598)	
Net changes in total pension liability	(41,103,806)	15,962,580	(182,317,043)	(260,312,471)	(228,529,236)	850,924,247	144,340,029	34,370,384	
Total pension liability - beginning	1,825,004,164	1,809,041,584	1,991,358,627	2,251,671,098	2,480,200,334	1,629,276,087	1,484,936,058	1,450,565,674	
Total pension liability - ending (a)	\$ 1,783,900,358	\$ 1,825,004,164	\$ 1,809,041,584	\$ 1,991,358,627	\$ 2,251,671,098	\$ 2,480,200,334	\$ 1,629,276,087	\$ 1,484,936,058	
Plan Fiduciary Net Position									
Employer contributions	\$ 24,091,743	\$ 23,208,655	\$ 19,281,642	\$ 19,294,283	\$ 19,175,401	\$ 19,231,804	\$ 19,059,012	\$ 18,614,507	
Employee contributions	11,428,100	10,265,552	9,249,680	9,163,176	9,143,408	9,379,784	9,138,451	8,884,829	
Net investment income	398,242,832	110,541,618	4,559,025	205,497,639	133,167,344	(60,344,122)	25,383,756	234,208,606	
Benefit payments, including refunds of employee contributions	(125,736,705)	(122,789,638)	(119,412,266)	(115,747,730)	(111,904,597)	(106,755,840)	(102,245,806)	(95,454,598)	
Administrative expense	(105,929)	(129,016)	(74,348)	(55,703)	(130,076)	(118,199)	(91,542)	(43,282)	
Net change in plan fiduciary net position	307,920,041	21,097,171	(86,396,267)	118,151,665	49,451,480	(138,606,573)	(48,756,129)	166,210,062	
Plan fiduciary net position - beginning	1,407,173,769	1,386,076,598	1,472,472,865	1,354,321,200	1,304,869,720	1,443,476,293	1,492,232,422	1,326,022,360	
Plan fiduciary net position - ending (b)	\$ 1,715,093,810	\$ 1,407,173,769	\$ 1,386,076,598	\$ 1,472,472,865	\$ 1,354,321,200	\$ 1,304,869,720	\$ 1,443,476,293	\$ 1,492,232,422	
Net pension liability (asset) - ending (a-b)	\$ 68,806,548	\$ 417,830,395	\$ 422,964,986	\$ 518,885,762	\$ 897,349,898	\$ 1,175,330,614	\$ 185,799,794	\$ (7,296,364)	
Plan fiduciary net position as a percentage of total pension liability	96.14%	77.11%	76.62%	73.94%	60.15%	52.61%	88.60%	100.49%	
Covered employee payroll (1)	\$ 159,568,380	\$ 149,976,800	\$ 146,461,468	\$ 148,527,851	\$ 141,154,763	\$ 141,906,487	\$ 140,544,393	\$ 137,261,720	
Net pension liability as a percentage of covered employee payroll	43.12%	278.60%	288.79%	349.35%	635.72%	828.24%	132.20%	(5.32)%	

Notes to Schedule

(1) 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 2014. 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, 2021
(UNAUDITED)

Schedule 3

	2021	2020	2019	2018	2017	2016	2015	2014	2013 to 2012
Statutorily determined contribution	\$ 24,091,743	\$ 23,208,655	\$ 19,281,642	\$ 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	24,091,743	23,208,655	19,281,642	19,294,283	19,175,401	19,231,804	19,059,012	18,614,507	
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Covered employee payroll	\$ 159,568,380	\$ 149,976,800	\$ 146,461,468	\$ 148,527,851	\$ 141,154,763	\$ 141,906,487	\$ 140,544,393	\$ 137,261,720	
Contributions as a percentage of covered employee payroll	15.10%	15.47%	13.16%	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 2014. Information for the schedule was not available prior to this fiscal year.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2021
(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:

Assets:	Years
Equipment	5-20
Buildings and building improvements	20-50
Infrastructure	10-40
Land improvements	10-100
Intangibles	4-95
Other capital assets	10-15

At June 30, 2021, the Agency had commitments related to planning, designing and constructing infrastructure for roads and bridges totaling \$1,486,452,220.

Capital assets activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 823,699,556	\$ 51,032,906		\$ 874,732,462
Buildings and welcome centers	163,218,260	410,323	\$ 11,675	163,616,908
Equipment	317,005,711	28,744,383	394,481	345,355,613
Infrastructure	17,352,014,851	250,293,285		17,602,308,136
Construction in progress	1,662,742,577	801,910,588	226,378,578	2,238,274,587
Total governmental activities	<u>\$ 20,318,680,955</u>	<u>\$ 1,132,391,485</u>	<u>\$ 226,784,734</u>	<u>\$ 21,224,287,706</u>

B. Pension Plan

Plan Description

The Arkansas State Highway Employees Retirement System (ASHERS) is 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 Arkansas Code Annotated 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 501-569-2000.

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2021
(UNAUDITED)

B. Pension Plan (continued)

Benefits Provided

Members are eligible for full retirement benefits as follows:

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

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

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 the lesser of 3% or the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers as determined by the United States Department of Labor. ASHERS also provides disability and survivor benefits.

At June 30, 2021, the following employees were covered by the pension plan:

	<u>Employees</u>
Inactive employees or beneficiaries currently receiving benefits	3,829
Inactive employees entitled to but not yet receiving benefits	306
Active employees	3,367
Total	7,502

Funding Policy

The employer contribution rate is established under state statute. 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 14.9% 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 7% of their compensation.

Net Pension Liability

At June 30, 2021, the Agency reported a net pension liability of \$68,806,548 determined by an actuarial valuation as of that date. This amount is 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, 2021
(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, 2021
Cost method	Entry Age Normal
Amortization method	Level Percent of Salary
Asset valuation	4-year smoothed Market Value
Inflation rate	2.50%
Salary increases (includes assumed inflation)	3.00%
Investment rate of return (includes assumed inflation)	7.50%
Mortality rates	105% Pub-2010-G(B) with no setback scaled with MP-2020 for males and females

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 7.50%.

Discount Rate

A single discount rate of 7.50% 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 7.50%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was projected to make all projected future benefit payments of current plan members. Therefore, the single discount rate of 7.50% was applied to all periods of projected benefit payments to determine the total 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, 2020	\$ 1,825,004,164	\$ 1,407,173,769	\$ 417,830,395
Changes for the year:			
Service cost	20,916,486		20,916,486
Interest	133,728,922		133,728,922
Changes in assumptions	(33,301,030)		(33,301,030)
Contributions - employer		24,091,743	(24,091,743)
Contributions - employee		11,428,100	(11,428,100)
Net investment income (loss)		398,242,832	(398,242,832)
Benefit payments, including refunds of employee contributions	(125,736,705)	(125,736,705)	
Assumption/method changes	(15,094,440)		(15,094,440)
Benefit changes	(21,617,039)		(21,617,039)
Administrative expense		(105,929)	105,929
Net changes	(41,103,806)	307,920,041	(349,023,847)
Balances, June 30, 2021	\$ 1,783,900,358	\$ 1,715,093,810	\$ 68,806,548

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2021
(UNAUDITED)

B. Pension Plan (continued)

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	
Net Pension		Net Pension		Net Pension	
Rate	Liability	Rate	Liability	Rate	Liability
6.50%	\$ 305,740,854	7.50%	\$ 68,806,548	8.50%	\$ (121,834,335)

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Transformation and Shared Services – Employee Benefits Division (DTSS-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DTSS-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DTSS-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DTSS-EBD is included in the State of Arkansas's Annual Comprehensive Financial Report (ACFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Transformation and Shared Services, 501 Woodlane, Suite 201, Little Rock, Arkansas 72201 or by calling 501-319-6565.

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by 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:

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2021
(UNAUDITED)

D. Compensated Absences – Employee Leave (Continued)

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 and may be accrued up to 120 days. Compensation up to a maximum of \$7,500 for unused sick leave is payable to employees upon retirement.

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2021 and 2020, amounted to \$14,864,585 and \$14,851,922, respectively. The net changes to compensated absences payable during the year ended June 30, 2021, amounted to \$12,663.

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, 2021, are summarized as follows:

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year
Governmental activities:					
General obligation					
bonds payable	\$ 745,320,000	\$ 268,135,000	\$ 475,730,000	\$ 537,725,000	\$ 185,670,000

General obligation bonds outstanding at June 30, 2021, are as follows:

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2021
(UNAUDITED)

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

	<u>Authorization</u>	<u>Final Maturity (Fiscal Year)</u>	<u>Interest Rates</u>	<u>Balance</u>
Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds for the rehabilitation and reconstruction of the existing interstate highway system:				
2012 series - \$197 million issued in fiscal year 2013.	Act 511 of 2007	2025	3.0% - 5.0%	\$ 79,285,000
2013 series - \$171 million issued in fiscal year 2014.	Act 511 of 2007	2026	4.0% - 5.0%	81,510,000
2014 series - \$206.5 million issued in fiscal year 2015.	Act 511 of 2007	2027	5%	<u>108,795,000</u>
Total Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds				<u>269,590,000</u>
Four-Lane Highway Construction and Improvement General Obligation Refunding Bonds:				
2021 series - \$268 million issued in fiscal year 2021 for the construction and improvement of four-lane highways	Ark. Const. amend. 91	2023	5%	<u>268,135,000</u>
Total General Obligation Bonds				<u>\$ 537,725,000</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2021, are summarized as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 185,670,000	\$ 26,899,074	\$ 212,569,074
2023	196,920,000	15,643,550	212,563,550
2024	60,980,000	6,220,000	67,200,000
2025	51,560,000	3,605,950	55,165,950
2026	31,440,000	1,566,200	33,006,200
2027	<u>11,155,000</u>	<u>278,875</u>	<u>11,433,875</u>
Totals	<u>\$ 537,725,000</u>	<u>\$ 54,213,649</u>	<u>\$ 591,938,649</u>

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

ARKANSAS DEPARTMENT OF TRANSPORTATION
OTHER GENERAL INFORMATION
JUNE 30, 2021
(UNAUDITED)

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

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds

Act 511 of 2007 and a statewide election conducted on 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 2021 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 2017 through 2021 and projected amounts for fiscal years 2022 through 2026 are as follows (expressed in thousands):

Revenues and Apportionments			Projected Revenues and Apportionments		
Fiscal Year Ending	Additional Diesel Tax Revenues	Apportioned FIMF	Fiscal Year Ending	Additional Diesel Tax Revenues	Apportioned FIMF
June 30,			June 30,		
2017	\$ 17,534	\$ 100,927	2022	\$ 17,000	\$ 111,571
2018	18,039	103,074	2023	17,000	113,802
2019	18,399	105,135	2024	17,000	116,078
2020	18,164	107,238	2025	17,000	100,000
2021	18,800	109,383	2026	17,000	100,000

Four-Lane Highway Construction and Improvement General Obligation Bonds

Amendment 91 to the Arkansas Constitution was approved by a vote of the people on November 6, 2012. This amendment authorized the State to issue State of Arkansas General Obligation Four-Lane Highway Construction and Improvement Bonds. All bonds issued under this authority are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Amendment limited the aggregate to principal amount to \$1.3 billion to be issued in several series of various principal amounts. The bonds are issued for the purpose of construction and improvement of four-lane highways in the State of Arkansas. The Arkansas State Highway Commission may issue additional bonds pursuant to Amendment 91 to the aggregate principal amount of \$831.1 million. Such additional bonds must have a maturity date no later than June 30, 2023. An amendment to the Arkansas Constitution was approved by the voters on November 3, 2020, removing the expiration date of the collection of the ½ cent sales tax. No bonds were issued under this under the authority of this Amendment in the 2021 fiscal year. The bonds are payable primarily from the ½ cent sales and use tax authorized by the Amendment. Revenues collected and designated for the repayment of the bonds during fiscal years 2017 through 2021 are as follows (expressed in thousands):

Fiscal Year Ending	Sales Tax Collections
June 30,	
2017	\$ 175,419
2018	187,427
2019	194,138
2020	202,932
2021	231,378