

**DEPARTMENT OF ARKANSAS STATE POLICE**

**Annual Financial Report**

**June 30, 2018**



DEPARTMENT OF ARKANSAS STATE POLICE  
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# Arkansas

**Sen. Jason Rapert**  
Senate Chair  
**Sen. Eddie Cheatham**  
Senate Vice Chair



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Department of Arkansas State Police  
Legislative Joint Auditing Committee

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the major fund of the Department of Arkansas State Police, a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department of Arkansas State Police'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 an opinion 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 opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund of the Department of Arkansas State Police as of June 30, 2018, the changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matter***

As indicated above, the financial statements of the Department of Arkansas State Police are intended to present the financial position, the changes in financial position, and the budgetary comparisons of only that portion of the major fund of the State that is attributable to the transactions of the Department of Arkansas State Police. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018, the changes in its financial position, and budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Department of Arkansas State Police are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Department of Arkansas State Police individually. Our opinion 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 an opinion on the financial statements that collectively comprise the Department of Arkansas State Police'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 June 25, 2019, on our consideration of the Department of Arkansas State Police'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 Department of Arkansas State Police'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 Department of Arkansas State Police's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
June 25, 2019  
SA1096018

# Arkansas

Sen. Jason Rapert  
Senate Chair  
Sen. Eddie Cheatham  
Senate Vice Chair



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

#### INDEPENDENT AUDITOR'S REPORT

Department of Arkansas State Police  
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 of the Department of Arkansas State Police (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department of Arkansas State Police's departmental financial statements, and have issued our report thereon dated June 25, 2019.

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Tom Bullington". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tom Bullington, CPA  
Deputy Legislative Auditor

Little Rock, Arkansas  
June 25, 2019

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

Exhibit A

	General Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 45,750,793
Investments	3,500,000
Accounts receivable:	
Federal grants and reimbursements	613,650
Customer receivables	15,599
Criminal history search fees	348,862
Accrued interest	29,348
Other receivables	10,432
Due from other state agencies	697,972
Inventories	1,642,104
Prepaid expenses	884,705
TOTAL ASSETS	\$ 53,493,465
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 2,792,464
Grants payable	532,146
Accrued payroll	2,328,696
Due to other agencies	761,500
Unearned income - permits and licenses	47,245,896
Other liabilities	242,252
Total Liabilities	53,902,954
 Deferred inflow of resources	
Related to revenues	15,599
 Fund Balance:	
Nonspendable:	
Prepaid items	884,705
Inventories	1,642,104
Restricted:	
Debt service	16,992,390
Program requirements	5,596,665
Committed:	
Capital projects	11,511
Other	2,333,909
Unassigned	(27,886,372)
Total Fund Balance	(425,088)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 53,493,465

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

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

Exhibit B

	General Fund
<b>REVENUES</b>	
Federal grants and reimbursements	\$ 11,295,066
Nonfederal grants	640,774
Motorized vehicle license and testing fees	13,086,083
Driver's license reinstatement fees	6,644,684
Business licenses and fees	1,369,600
Criminal history search fees	4,793,698
Concealed weapons permits	3,126,010
Storage tank fees	43,360
Accident record copies	377,060
Child passenger protection fines	141,895
Insurance and registration penalties	1,177,753
Interest income	541,916
Court awards	727,981
Rental income	171,810
Other sales, refunds, and reimbursements	830,195
<b>TOTAL REVENUES</b>	<b>44,967,885</b>
Less: State Treasury service charge	653,084
<b>NET REVENUES</b>	<b>44,314,801</b>
<b>EXPENDITURES</b>	
Personal services - payroll	45,082,763
Employee benefits - matching	14,893,004
Overtime earnings	770,362
Communication and transportation of commodities	2,087,583
Printing and advertising	72,209
Repairing and servicing	7,507,555
Utilities and rent	1,293,890
Travel and subsistence	487,075
Professional services	2,163,293
Insurance and bonds	1,257,747
Other expenses and services	1,940,358
Commodities, materials, and supplies	6,156,108
Assistance, grants, and aids	1,719,717
Refunds, taxes, and claims	12,347,837
Debt service:	
Principal	3,743,750
Interest	1,088,041
Low value asset purchases	1,479,245
Capital outlay	21,746,981
<b>TOTAL EXPENDITURES</b>	<b>125,837,518</b>

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

Exhibit B

	General Fund
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (81,522,717)
OTHER FINANCING SOURCES (USES)	
Driver's license revenue bond proceeds (net)	8,795,927
Interagency transfers:	
General revenue distribution	66,270,554
Uniform filing fees and court cost	260,000
Administrative Office of the Courts	(93,726)
Arkansas Department of Emergency Management	259,300
Arkansas Department of Health	(288,211)
Arkansas Department of Human Services	2,667,879
Arkansas Department of Information Systems	(1,903,496)
Arkansas Department of Transportation	(311,185)
Arkansas Public Employees Retirement System	1,514,513
Arkansas State Crime Laboratory	(509,510)
Black River Technical College	(90,914)
Department of Finance and Administration	57,753
Department of Finance and Administration - motor vehicle funding	3,030,136
Office of Attorney General	(2,491)
University of Arkansas Criminal Justice Institute	(518,608)
University of Arkansas Fayetteville	(173,441)
University of Arkansas for Medical Sciences	(468,193)
Marketing and redistribution sales proceeds	46,798
Noncontroversial claims	(8,501)
Prior-year refunds to expenditures	4,813
Prior-year warrants outlawed and cancelled	1,126
TOTAL OTHER FINANCING SOURCES (USES)	78,540,523
NET CHANGE IN FUND BALANCE	(2,982,194)
FUND BALANCE - JULY 1	2,557,106
FUND BALANCE - JUNE 30	\$ (425,088)

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

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

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
<b>REVENUES</b>				
Federal grants and reimbursements	\$ 49,266,363	\$ 49,222,363	\$ 11,295,066	\$ (37,927,297)
Nonfederal grants			640,774	640,774
Special revenue (net of treasury service charge)	22,997,934	24,583,297	30,107,059	5,523,762
Court awards			727,981	727,981
Rental income			171,810	171,810
Interest income			541,916	541,916
Other sales, refunds, and reimbursements	<u>7,844,123</u>	<u>9,457,362</u>	<u>830,195</u>	<u>(8,627,167)</u>
<b>TOTAL REVENUES</b>	<u>80,108,420</u>	<u>83,263,022</u>	<u>44,314,801</u>	<u>(38,948,221)</u>
<b>EXPENDITURES</b>				
Regular salaries	46,716,790	45,440,127	45,160,134	279,993
Extra help	223,180	181,232	78,421	102,811
Operating expenses	31,160,338	32,320,648	22,992,036	9,328,612
Personal services matching	32,118,914	26,755,106	14,737,211	12,017,895
Grants	32,994,220	35,355,719	1,719,717	33,636,002
Overtime	1,434,167	1,129,179	770,362	358,817
Conference fees and travel	730,851	670,778	349,063	321,715
Professional fees and services	3,760,125	4,034,126	1,261,573	2,772,553
Capital outlay	8,935,305	13,017,503	11,746,189	1,271,314
Fund transfer/refund/investment	800,000	800,000		800,000
Covert operations	125,000			
General/capital improvement projects	35,550,000	36,425,000	193,086	36,231,914
Unappropriated cash fund disbursements			<u>26,829,726</u>	<u>(26,829,726)</u>
<b>TOTAL EXPENDITURES</b>	<u>194,548,890</u>	<u>196,129,418</u>	<u>125,837,518</u>	<u>70,291,900</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(114,440,470)</u>	<u>(112,866,396)</u>	<u>(81,522,717)</u>	<u>31,343,679</u>

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

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Driver's License Revenue Bond Proceeds			\$ 8,795,927	\$ 8,795,927
Interagency transfers:				
General revenue distribution	\$ 66,375,577	\$ 66,375,577	66,270,554	(105,023)
Merit adjustment funding	1,875,000			
Uniform filing fees and court costs			260,000	260,000
Administrative Office of the Courts			(93,726)	(93,726)
Arkansas Department of Emergency Management			259,300	259,300
Arkansas Department of Health			(288,211)	(288,211)
Arkansas Department of Human Services			2,667,879	2,667,879
Arkansas Department of Information Systems			(1,903,496)	(1,903,496)
Arkansas Department of Transportation			(311,185)	(311,185)
Arkansas Public Employees Retirement System			1,514,513	1,514,513
Arkansas State Crime Laboratory			(509,510)	(509,510)
Black River Technical College			(90,914)	(90,914)
Department of Finance and Administration			57,753	57,753
Department of Finance and Administration - motor vehicle funding			3,030,136	3,030,136
Office of Attorney General			(2,491)	(2,491)
University of Arkansas Criminal Justice Institute			(518,608)	(518,608)
University of Arkansas Fayetteville			(173,441)	(173,441)
University of Arkansas for Medical Sciences			(468,193)	(468,193)
Marketing and redistribution sales proceeds			46,798	46,798
Noncontroversial claims			(8,501)	(8,501)
Prior-year refund to expenditures			4,813	4,813
Prior-year warrants outlawed and cancelled			1,126	1,126
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>68,250,577</u>	<u>66,375,577</u>	<u>78,540,523</u>	<u>12,164,946</u>
<b>NET CHANGE IN FUND BALANCES</b>	(46,189,893)	(46,490,819)	(2,982,194)	43,508,625
<b>FUND BALANCES - JULY 1</b>	<u>2,557,106</u>	<u>2,557,106</u>	<u>2,557,106</u>	
<b>FUND BALANCES - JUNE 30</b>	<u>\$ (43,632,787)</u>	<u>\$ (43,933,713)</u>	<u>\$ (425,088)</u>	<u>\$ 43,508,625</u>

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

DEPARTMENT OF ARKANSAS STATE POLICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 120 of 1935, as amended, established the Department of Arkansas State Police as a department of Arkansas state government for the purpose of enforcing motor vehicle laws, traffic laws, and other laws relating to protecting and properly maintaining the State's highway system, apprehending criminals, and enforcing criminal laws. This Act also provided for a seven-member Commission to serve as a regulating body. Each member is entitled to \$60 per day as a stipend for attending official Commission meetings and reimbursement for actual expenses incurred in performing official Commission duties at rates not to exceed those established for state employees by state travel regulations in accordance with Ark. Code Ann. §§ 25-16-901 — 25-16-906

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.

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.

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.

DEPARTMENT OF ARKANSAS STATE POLICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Deposits and Investments (continued)

State Board of Finance Policies (continued)

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 \$19,590,484, \$24,896,321, and \$3,500,000, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2018, \$11,181,131 of the Agency's bank balance of \$23,103,337 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>11,181,131</u>
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The Agency obtained proper collateralization for this uninsured and uncollateralized account balance on September 25, 2018.

F. 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 replacement cost.

G. 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."

DEPARTMENT OF ARKANSAS STATE POLICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

H. 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.

I. 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.

*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.

J. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

DEPARTMENT OF ARKANSAS STATE POLICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 2: Deficit Fund Balance

The Agency had a deficit fund balance of \$425,088 as of June 30, 2018, in the general fund, resulting from the recognition of various liabilities, including accounts payable, accrued payroll, and due to other agencies. Subsequent general revenue allocation transfers will provide funding for the liabilities.

NOTE 3: Contingencies

*The Estate of Braun vs. Burke, et al.* (Case No. 4:18-cv-00334 BRW), a federal civil rights case, was filed in the United States District Court for the Eastern District of Arkansas on May 18, 2018, seeking the recovery of damages resulting from a fatal auto collision involving an Arkansas State Police vehicle. A parallel claim was filed with the Arkansas Claims Commission on behalf of the Estate of Cassandra Braun on October 19, 2018, seeking the recovery of \$10,000,000 in damages. That claim is being held in abeyance pending the outcome of the federal case.

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

Schedule 1

	For the Year Ended June 30,				
	2018	2017 (1)	2016	2015	2014
<b>General Fund</b>					
Total Assets	\$ 53,493,465	\$ 47,897,967	\$ 44,138,562	\$ 31,044,160	\$ 28,460,998
Total Liabilities	53,902,954	45,012,668	18,432,318	11,820,234	11,608,539
Total Deferred Inflows of Resources	15,599	328,193	285,453	278,211	46,606
Total Fund Equity	(425,088)	2,557,106	25,420,791	18,945,715	16,805,853
Net Revenues	44,314,801	43,911,334	47,185,541	45,867,837	49,063,755
Total Expenditures	125,837,518	110,134,231	120,981,724	108,479,082	109,130,213
Total Other Financing Sources (Uses)	78,540,523	67,422,934	80,271,259	64,751,107	60,932,331

(1) Beginning in fiscal year 2017, the Agency started recognizing income from drivers' licenses over the period of issuance rather than in the year payment was received. As a result, significant variances among the affected balances may exist when compared to prior-year amounts that have not been adjusted for this accounting change.

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

Schedule 2

	2018	2017	2016	2015	2014	2013 to 2009
Total Pension Liability						N/A
Service cost	\$ 6,577,148	\$ 5,473,626	\$ 5,488,445	\$ 6,101,608	\$ 4,866,199	
Interest	30,678,211	30,322,786	29,469,678	29,218,802	28,558,511	
Differences between expected and actual experience	467,389	(3,052,763)	1,757,687	(3,107,531)	(454,349)	
Changes of assumptions	(4,529,133)	15,875,267		8,703,080	8,970,858	
Benefit payments, including refunds of employee contributions	(24,185,418)	(24,631,787)	(26,035,466)	(23,358,801)	(21,688,239)	
Net changes in total pension liability	9,008,197	23,987,129	10,680,344	17,557,158	20,252,980	
Total pension liability - beginning	437,870,023	413,882,894	403,202,550	385,645,392	365,392,412	
Total pension liability - ending (a)	<u>\$ 446,878,220</u>	<u>\$ 437,870,023</u>	<u>\$ 413,882,894</u>	<u>\$ 403,202,550</u>	<u>\$ 385,645,392</u>	
Plan Fiduciary Net Position						
Employer contributions	\$ 20,869,779	\$ 19,918,021	\$ 19,683,114	\$ 19,784,130	\$ 19,501,677	
Employee contributions	133,860	43,037	30,170	94,814		
Net investment income	28,823,344	31,484,258	(210,034)	6,131,690	43,307,753	
Benefit payments, including refunds of employee contributions	(24,185,418)	(24,631,787)	(26,035,466)	(23,358,801)	(21,688,239)	
Administrative expense	(228,431)	(208,424)	(205,342)	(196,232)	(189,657)	
Net change in plan fiduciary net position	25,413,134	26,605,105	(6,737,558)	2,455,601	40,931,534	
Plan fiduciary net position - beginning	299,525,117	272,920,012	279,657,570	277,201,969	236,270,435	
Plan fiduciary net position - ending (b)	<u>\$ 324,938,251</u>	<u>\$ 299,525,117</u>	<u>\$ 272,920,012</u>	<u>\$ 279,657,570</u>	<u>\$ 277,201,969</u>	
Net pension liability (asset) - ending (a-b)	<u>\$ 121,939,969</u>	<u>\$ 138,344,906</u>	<u>\$ 140,962,882</u>	<u>\$ 123,544,980</u>	<u>\$ 108,443,423</u>	
Plan fiduciary net position as a percentage of total pension liability	72.71%	68.41%	65.94%	69.36%	71.88%	
Covered employee payroll (1)	\$ 29,593,145	\$ 29,076,764	\$ 29,448,593	\$ 29,929,358	\$ 28,548,873	
Net pension liability as a percentage of covered employee payroll	412.05%	475.79%	478.67%	412.79%	379.85%	

**Notes to Schedule**

There were no changes in benefit terms for the Arkansas State Police Retirement System (ASPRS) plan for the year ended June 30, 2018.

Changes in economic assumptions were limited to pay increase assumptions for individual members. Non-economic assumptions adjusted included changes in the mortality tables, probabilities of retirement, death in service, disability, and withdrawal from service. Additional information regarding any changes is available from the plan's actuary report.

(1) In 2017, actual DROP participant pays were used. In 2015 and 2016, an estimate of average annual payroll for DROP participants of \$75,000 and \$67,000, respectively, was used.

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

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

Schedule 3

	(expressed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 15,600	\$ 14,100	\$ 14,300	\$ 14,200	\$ 14,000	\$ 13,600	\$ 14,100	\$ 12,600	\$ 12,700	\$ 10,500
Contributions in relation to the actuarially determined contribution	21,000	20,000	19,700	19,800	19,500	19,500	19,700	14,100	20,500	12,100
Contribution deficiency (excess)	<u>\$ (5,400)</u>	<u>\$ (5,900)</u>	<u>\$ (5,400)</u>	<u>\$ (5,600)</u>	<u>\$ (5,500)</u>	<u>\$ (5,900)</u>	<u>\$ (5,600)</u>	<u>\$ (1,500)</u>	<u>\$ (7,800)</u>	<u>\$ (1,600)</u>
Covered-employee payroll (1)	\$ 30,000	\$ 29,100	\$ 29,400	\$ 29,900	\$ 29,100	\$ 28,100	\$ 29,500	\$ 28,200	\$ 28,500	\$ 27,600
Contributions as a percentage of covered employee payroll	70.00%	68.73%	67.01%	66.22%	67.01%	69.40%	66.78%	50.00%	71.93%	43.84%

**Notes to Schedule**

- (1) In 2016, covered employee payroll used an estimate of average annual payroll for DROP participants of \$67,000.  
In 2015, covered employee payroll used an estimate of average annual payroll for DROP participants of \$75,000.

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

A. Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Total uncompleted construction project commitments at June 30, 2018, amounted to \$9,348,952. Estimated useful lives generally assigned are as follows:

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 3,324,613	\$ 212,372	\$ 1,500	\$ 3,535,485
Buildings	43,169,605		278,377	42,891,228
Improvements	135,366	56,049	3,360	188,055
Infrastructure	14,381,304			14,381,304
Intangibles	9,639,835	5,200,688	432,740	14,407,783
Assets under construction	9,792,622	9,102,076	8,992,463	9,902,235
Art and historical treasures	14,156			14,156
Equipment	99,281,695	8,322,142	7,941,305	99,662,532
Total governmental activities	<u>\$ 179,739,196</u>	<u>\$ 22,893,327</u>	<u>\$ 17,649,745</u>	<u>\$ 184,982,778</u>

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

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

DEPARTMENT OF ARKANSAS STATE POLICE  
OTHER GENERAL INFORMATION  
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(UNAUDITED)

B. Pension Plan (continued)

Arkansas Public Employees Retirement System (APERS) (continued)

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14.75% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2018, 2017, and 2016, were \$2,331,309, \$2,252,690, and \$2,286,610, respectively, equal to the required contributions for each year.

Arkansas State Police Retirement System (ASPRS)

Plan Description – The Agency contributes to the ASPRS, a single-employer, defined benefit pension plan administered by the ASPRS Board of Trustees. ASPRS 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 for the enactment and amendment of benefit provisions of ASPRS as published in Chapter 6 of Title 24 of the Arkansas Code Annotated. ASPRS issues a publicly available financial report that includes financial statements and required supplementary information for ASPRS. That report may be obtained by writing to Arkansas State Police Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-501-682-7800

Funding Policy – Contributory plan members, if any, are required to contribute 9.25% of their annual covered salary. The Agency is required to contribute for all covered State employees at the rate of 22% of annual covered payroll. Additional funding sources include certain designated court fees, a portion of the driver license fees, and a portion of insurance premium taxes, as authorized by the Arkansas Code Annotated. The contribution requirements of plan members and the Agency are established and may be amended by the Arkansas General Assembly. The Agency contributions to ASPRS for the years ended June 30, 2018, 2017, and 2016 were \$6,525,521, \$6,441,754, and \$6,601,624, respectively. Total contributions from all sources to ASPRS for the years ended June 30, 2018, 2017, and 2016, were \$21,003,650, \$19,961,066, and \$19,713,295, respectively.

Benefits Provided – Contributory members are eligible for full retirement benefits at any age with 30 years of credited service or at age 50 with five years of actual service. Contributory members are eligible for reduced benefits at any age after 20 years of credited service.

Noncontributory members are eligible for full retirement benefits at any age with 30 years of actual service, at age 52 with five years of actual service for Tier One, or at age 65 with five years of actual service for Tier Two. For Tier One, the age requirement is reduced by one month for every two months of Public Safety service credit but not below age 52. The age requirement for Tier Two is reduced by 75% of a month for each actual month of service but not below age 55. Noncontributory members are eligible for a reduced benefit after five years of actual service once the covered employee is within ten years of becoming eligible for full benefits. Public Safety service credit is granted at the rate of 1.5 months of credit for each actual month of Public Safety employment for Tier One noncontributory members.

The normal retirement benefit is paid monthly and is determined based on the member's final average compensation and the number of years and months of credited service. Final average compensation is (1) the average of salary paid in the three years immediately preceding termination for the contributory plan, (2) an average of the highest 60 calendar months' salary for Tier One, or (3) the highest 48 calendar months' salary for Tier Two, and the number of years and months of credited service.

Retiree benefit increases are calculated each year on July 1 for the following 12 months. The recalculated amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%.

ASPRS also provides disability and survivor benefits.

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B. Pension Plan (continued)

Arkansas State Police Retirement System (ASPRS) (continued)

Employees Covered by Benefit Terms – At June 30, 2018, the following employees were covered by the ASPRS defined benefit pension plan.

	<u>Employees</u>
Inactive employees or beneficiaries currently receiving benefits	729
Inactive employees entitled to but not yet receiving benefits	84
Active employees	467
Total	1,280

Net Pension Liability – At June 30, 2018, the Agency reported a net pension liability of \$121,939,969. This amount was reported in the State’s “Government-Wide” financial statements but is not reported in the governmental fund financial statements.

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

Actuarial valuation date	June 30, 2017
Inflation rate	2.50%
Salary increases (1)	3.25% to 10.25%
Investment rate of return (1)	7.15%
Mortality rates	RP-2000 Combined Mortality Tables, projected to 2020 using Projection Scale BB, set forward two years for males and one year for females, with an approximate 14% margin for future mortality improvement
Actuarial experience study dates	July 1, 2012 - June 30, 2017

(1) Includes assumed inflation

The long-term expected rate of return on pension plan investment was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected price inflation. Best estimates are arithmetic real rates of return for the 10-year period from July 2018 to 2027 were based on capital market assumptions provided by the plan’s investment consultants. For each major asset class that is included in the pension plan’s target asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

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B. Pension Plan (continued)

Arkansas State Police Retirement System (ASPRS) (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	37.00%	5.97%
International equity	24.00%	6.07%
Real assets	16.00%	4.59%
Absolute return	5.00%	3.15%
Domestic fixed	18.00%	0.83%
Total	<u>100.00%</u>	

Discount Rate – A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investment of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – The following table provides the changes in net pension liability for the ASPRS single-employer, defined benefit pension plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a-b)
Balances, June 30, 2017	\$ 437,870,023	\$ 299,525,117	\$ 138,344,906
Changes for the year:			
Service cost	6,577,148		6,577,148
Interest	30,678,211		30,678,211
Difference between expected and actual experience	467,389		467,389
Changes in assumption	(4,529,133)		(4,529,133)
Contribution - employer		21,003,650	(21,003,650)
Contribution - employee			
Net investment income		28,823,332	(28,823,332)
Benefit payments, including refunds of employee contributions	(24,185,418)	(24,185,418)	
Administrative expense		(228,430)	228,430
Net changes	<u>9,008,197</u>	<u>25,413,134</u>	<u>(16,404,937)</u>
Balances, June 30, 2018	<u>\$ 446,878,220</u>	<u>\$ 324,938,251</u>	<u>\$ 121,939,969</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the Agency's net pension liability calculated using the discount rate stated, as well as what the Agency's net pension liability 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:

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B. Pension Plan (continued)

Arkansas State Police Retirement System (ASPRS) (continued)

	1% Lower than Current Discount Rate	Current Discount Rate 7.15%	1% Higher than Current Discount Rate
Net Pension Liability	\$ 175,872,328	\$121,939,969	\$ 77,117,511

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2018, the ASPRS recognized pension expense of \$23,003,885. For the year ended June 30, 2018, the ASPRS reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,058,145	\$ 2,281,952
Changes of assumptions	10,639,051	3,540,196
Net differences between projected and actual earnings on pension plan investments	11,417,637	12,742,292
Total	\$ 23,114,833	\$ 18,564,440

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Net Deferred Outflows of Resources
2019	\$ 6,566,961
2020	2,586,753
2021	(2,583,268)
2022	(2,020,053)
Total	\$ 4,550,393

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C. Employee Health Insurance

Pursuant to Ark. Cod Ann. § 12-8-210, the Agency offers health care benefits to active uniformed members and retirees. The Arkansas State Police Human Resource section serves as plan administrator. A contracted third-party administrator (TPA) is selected each plan year to serve as claims processor. The TPA also administers the COBRA Act of 1985 and provides certain actuarial estimates for the Plan. Health care benefits are funded by employer and retired employee contributions and by an additional fee assessed on each issued or renewed driver's license, as allowed by Ark. Code Ann. § 27-16-801(g). The Plan is partially self-funded; reinsurance stop-loss coverage for aggregate benefit utilization is contracted for each plan year. Plan years cover January 1 through December 31 of any given year. Employer contribution rates are set by the Arkansas State Police, with final approval by the Arkansas State Police Commission. The Commission is authorized by Ark. Code Ann. § 12-8-210 to direct the Plan. The current monthly premium, set on July 1, is \$862 per budgeted uniformed position.

The plan administrator offers the following employee benefits to Arkansas State Police uniformed employees: a major medical plan that includes prescription drug benefits, a health savings account, and mental health benefits. Arkansas State Police offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, Arkansas State Police uniformed employees are given the option to participate in a deferred compensation plan. A stand-alone vision and dental plan as well as a comprehensive group term life plan are available, with the employee paying all premiums.

Liabilities for claims incurred but not reported for the Plan are reported on the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. These liabilities exist because of the span of time between the incurrence of obligations to pay claims and the liquidation of the obligations by the Agency cross reporting periods. The amounts of these liabilities, based on evaluation of claims data for those claims incurred before year-end and paid after year-end for June 30, 2018, are as follows:

	2018	2017
Claim liability, beginning of year	\$ 674,957	\$ 1,074,551
Incurred claims:		
Provision for insured events of current year	13,328,925	14,270,398
Increase (decrease) in provision for insured events of prior years	176,326	596,023
Total incurred claims and claim adjustment expense	13,505,251	14,866,421
Payments:		
Claims payments attributed to insured events of current year	12,308,442	13,595,441
Claims payments attributed to insured events of prior years	851,283	1,670,574
Total payments	13,159,725	15,266,015
Claim liability, end of year	\$ 1,020,483	\$ 674,957

D. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Finance and Administration – Employee Benefits Division (DFA-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DFA-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DFA-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DFA-EBD is included in the State of Arkansas's Comprehensive Annual Financial Report (CAFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Finance and Administration, 1509 West Seventh Street, Suite 403, Little Rock, Arkansas 72201 or by calling 501-682-1675.

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D. Postemployment Benefits Other Than Pensions (OPEB) (continued)

Arkansas State Employee Health Insurance Plan (Plan) (continued)

The Agency contributes to the Plan, a single-employer, defined benefit OPEB plan administered by DFA-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

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

Arkansas State Police Medical and Rx Plan (Plan)

The Agency also contributes to a separate single-employer, defined benefit health care plan, which offers postemployment benefits to the Director and State Police Officers who retire under the Arkansas State Police Retirement System, make the required contributions, and purchase Medicare Parts A and B. The plan provides medical, dental, vision, and prescription drug benefits to eligible employees as established by Ark. Code Ann. § 12-8-210. The Agency contributes \$862 to the Plan for each budgeted uniformed position. The retiree pays a premium based on type of coverage and eligibility for Medicare as well as dependents covered. Benefits are available when the retiree reaches 65 with five years of service or at any age with 30 years of service. The plan has an open enrollment period for retirees who do not sign up when first eligible. The required plan contribution is based on the projected pay-as-you-go financing requirements, and no assets are accumulated in a trust, as defined by GASB Statement No. 75. The medical portion of the plan is administered by QualChoice of Arkansas, Inc. The dental and vision portion of the plan is administered by Delta Dental. The prescription drug portion of the plan is administered by Castia Rx.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which became effective for the Agency with the fiscal year ending June 30, 2018. The Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB Statement No. 75 also identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service for defined benefit OPEB. OPEB activities and balances are included in the State of Arkansas's Comprehensive Annual Financial Report (CAFR) but are not reflected in the financial statements of governmental funds.

At June 30, 2018, the following employees were covered by the Arkansas State Police Medical and Rx Plan:

Inactive employees or beneficiaries	
currently receiving benefits	873
Active employees	645
Total	1,518

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D. Postemployment Benefits Other Than Pensions (OPEB) (continued)

Arkansas State Police Medical and Rx Plan (Plan) (continued)

At June 30, 2018, the total OPEB liability was determined to be \$168,589,561 based on an actuarial valuation and procedures to roll forward the actuarial valuation to year end (the measurement date). The actuarial valuations used the following assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2017	
Inflation rate	3.00%	
Discount rate	2.98%	(1)
Healthcare cost trend rates	8.0% initial; 5.0 % Ultimate	
Mortality rate	RP 2000 Mortality Table projected to the year 2020	
Retirees' share of benefit-related costs	29.83%	
Actuarial experience study dates	N/A	

(1) The discount rate was determined by using the S&P Municipal Bond 20 Year High Grade Bond Index.

The following table provides the changes in the total OPEB liability for the Arkansas State Police Medical and Rx Plan:

	Total OPEB Liability
Original Balance, June 30, 2017	<u>\$ 39,788,376</u>
Change from GASB 45 to GASB 75:	
Adjust to unfunded liability under GASB 45	98,838,949
Change in actuarial methods to GASB 75	(1,135,630)
Change in discount rate per GAS 75	19,690,058
Total adjustment from GASB 45 to GASB 75	<u>117,393,377</u>
Restated Balance, June 30, 2017	<u>157,181,753</u>
Changes for the current fiscal year:	
Service cost	6,114,015
Interest	4,958,919
Changes in assumptions or other inputs (1)	3,948,553
Benefits payments	<u>(3,613,679)</u>
Net changes	<u>11,407,808</u>
Balance, June 30, 2018	<u><u>\$ 168,589,561</u></u>

(1) The discount rate used was 3.13% at June 30, 2017, and 2.98% at June 30, 2018.

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D. Postemployment Benefits Other Than Pensions (OPEB) (continued)

Arkansas State Police Medical and Rx Plan (Plan) (continued)

The following table presents the Plan's total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate for the plan:

	1% Decrease of Rate to 1.98%	Current Discount Rate of 2.98%	1% Increase of Rate to 3.98%
Total OPEB Liability	\$ 196,552,128	\$ 168,589,561	\$ 145,926,049

The following table presents the Plan's total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare costs trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates for the plan:

	1% Decrease in Health Care Cost Trend Rate (7%)	Current Health Care Cost Trend Rate (8%)	1% Increase in Health Care Cost Trend Rate (9%)
OPEB Liability	\$ 141,386,929	\$ 168,589,561	\$ 204,552,068

For the year ended June 30, 2018, the Plan recognized OPEB expenses of \$11,401,980.

At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB for the Arkansas State Police Medical and Rx Plan from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Beginning Balance, July 1, 2017	\$ 3,948,553	
Changes of assumptions and other inputs	(329,046)	
Ending Balance, June 30, 2018	\$ 3,619,507	

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Year ended June 30						Total
	2019	2020	2021	2022	2023	Thereafter	
Net Deferred Outflow of Resources	\$ 329,046	\$ 329,046	\$ 329,046	\$ 329,046	\$ 329,046	\$1,974,277	\$3,619,507

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E. Compensated Absences – Employee Leave

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

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

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2018 and 2017, amounted to \$9,831,869 and \$8,873,191, respectively. The net changes to compensated absences payable during the year ended June 30, 2018, amounted to \$958,678.

F. Loans Payable to Arkansas Development Finance Authority

2017 Driver's License Revenue Bonds – Arkansas State Police Headquarters Project

The Agency executed a loan agreement, dated May 10, 2017, with the Arkansas Development Finance Authority (ADFA) in the amount of \$31,675,000 for the purpose of financing the designing, acquisition, construction, and equipping of headquarter facilities in Lowell, Newport, Forrest City, Warren, and Harrison, Arkansas. The 2017 loan agreement provided for payments to be made monthly to meet the principle and interest requirements of bonds issued by ADFA, which mature on March 1, 2035, plus any other fees and expenses incurred as part of the bond issue. All automobile operator license fees deposited into the Driver's License Revenue Cash Fund are considered pledged revenues and must be used to satisfy debt service requirements of loans and associated bonds. The interest rate on the loan payable ranged from 2% to 3.375%. As of June 30, 2018, the Arkansas State Police had only received \$10,964,435 of the loan with \$20,710,565 still available to draw in subsequent fiscal years. The debt service requirements on the loan payable are summarized as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 3,097,083	\$ 876,515	\$ 3,973,598
2020	1,599,583	814,573	2,414,156
2021		782,581	782,581
2022		782,581	782,581
2023	152,083	782,581	934,664
2024 - 2028	<u>5,847,353</u>	<u>1,306,292</u>	<u>7,153,645</u>
Totals	<u>\$ 10,696,102</u>	<u>\$ 5,345,123</u>	<u>\$ 16,041,225</u>