

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM

Annual Financial Report

June 30, 2024

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
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Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

Arkansas State Highway Employees Retirement System
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Arkansas State Highway Employees Retirement System, an office of Arkansas state government, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Arkansas State Highway Employees Retirement System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Arkansas State Highway Employees Retirement System as of June 30, 2024, and the changes in financial position thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the office, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As indicated above, the financial statements of the Arkansas State Highway Employees Retirement System are intended to present the financial position and the changes in financial position of only the portion of the State that is attributable to the transactions of the Arkansas State Highway Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2024, or the changes in its financial position 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.

Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 office's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Arkansas State Highway Employees Retirement System are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Arkansas State Highway Employees Retirement System individually. Our opinion on the basic financial statements is not affected by the omission of this information.

Other Information

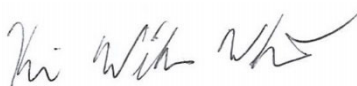
Management is responsible for the other information included in the report. The other information comprises the Schedule of Selected Information but does not include the basic financial statements, required supplementary information, and our auditor's reports thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2025, on our consideration of the office'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 the testing, and not to provide an opinion on the effectiveness of the office'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 office's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in dark ink, appearing to read "Kevin White", with a stylized flourish at the end.

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
September 12, 2025
SA0509124

Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Arkansas State Highway Employees Retirement System
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 Arkansas State Highway Employees Retirement System (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Arkansas State Highway Employees Retirement System's basic financial statements, and have issued our report thereon dated September 12, 2025.

Report on 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 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 or significant deficiencies may exist that were not identified.

Report on 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 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", written in a cursive style.

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
September 12, 2025

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2024

Exhibit A

	<u>Total</u>
ASSETS	
Cash and cash equivalents	<u>\$ 173,462,129</u>
Receivables:	
Member contributions	535,550
Employer contributions	1,248,906
Accrued investment income	2,675,278
Other	91,062
Total Receivables	<u>4,550,796</u>
Investments, at fair value:	
U.S. Government obligations	103,464,324
Government agency securities	60,341,098
Government agency mortgage-backed securities	17,914,989
Domestic equities	293,006,886
International equities	126,429,345
Corporate obligations	57,882,641
Municipal bonds	11,861,014
Mutual and exchange traded funds	743,024,611
Master limited partnerships	22,417,385
Total Investments	<u>1,436,342,293</u>
Securities lending collateral	<u>163,221,916</u>
 TOTAL ASSETS	 <u>1,777,577,134</u>
LIABILITIES	
Accrued expenses and other current liabilities	2,258,724
Securities lending liability	163,246,310
	<u>165,505,034</u>
DEFERRED INFLOWS OF RESOURCES	
Related to revenues	<u>3,570</u>
 NET POSITION RESTRICTED FOR PENSIONS	 <u><u>\$ 1,612,068,530</u></u>

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

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2024

Exhibit B

	<u>Total</u>
ADDITIONS	
Contributions:	
Employer	\$ 31,269,008
Member	13,409,742
Total Contributions	<u>44,678,750</u>
Investment income	
From investing activities:	
Net appreciation (depreciation) in fair value of investments	172,360,211
Interest	24,976,656
Dividends	10,411,289
Total Investment Income (Loss)	207,748,156
Less investment expense	<u>(9,293,268)</u>
Net Investment Income (Loss)	<u>198,454,888</u>
From securities lending activities:	
Securities lending income	7,287,133
Less securities lending expense	<u>(6,880,158)</u>
Net Securities Lending Income (Loss)	<u>406,975</u>
Other additions	<u>3,745</u>
 TOTAL ADDITIONS	 <u>243,544,358</u>
DEDUCTIONS	
Benefits	133,755,140
Refunds of contributions	2,216,775
Administrative expenses	<u>105,650</u>
 TOTAL DEDUCTIONS	 <u>136,077,565</u>
 NET INCREASE (DECREASE) IN NET POSITION	 107,466,793
 NET POSITION - BEGINNING OF YEAR	 <u>1,504,601,737</u>
 NET POSITION - END OF YEAR	 <u>\$ 1,612,068,530</u>

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

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 454 of 1949, as amended, established the Arkansas State Highway Employees Retirement System (the System or ASHERS) as an office of Arkansas state government to provide uniform retirement eligibility and benefits for employees of the Arkansas Department of Transportation (ARDOT). This Act also provides for a seven-member Board of Trustees to administer the System. The members include the Director of State Highways and Transportation, the Treasurer of State, the Secretary of the Department of Finance and Administration, and the Chief Engineer – Operations of the Arkansas Department of Transportation. Two of the remaining Board members are elected by the active members for two-year terms, and one retired member is elected by retirees and active members in the Deferred Retirement Option Program (DROP) for a two-year term. An election is held each June to replace any member whose term is expiring. Board members serve without pay but are entitled to receive reimbursement for all actual expenses incurred while performing official duties of the Board. Act 793 of 1977 established minimum financing, accounting, and reporting standards for the System.

B. Plan Description

The Arkansas State Highway Employees Retirement System, a single employer defined benefit pension plan, covers all employees of the Arkansas Department of Transportation. On June 30, 2024, System membership consisted of the following:

Retirees and beneficiaries currently receiving benefits, including	
DROP participants	3,900
Inactive members entitled to but not yet receiving benefits	383
Active members	<u>3,597</u>
 Total	 <u><u>7,880</u></u>

The plan may only be amended by the Arkansas General Assembly.

The State (or employer) contributes 14.9% of pay for each covered employee, including participants in both Tier I and Tier II of the DROP. Each covered employee not currently in Tier I of DROP must make member contributions equal to 7.0% of compensation. Contributions for Tier II DROP employees remain at 6.0%. For anyone hired after June 30, 2021, upon enrollment in the DROP they will continue member contributions equal to the active employee rates during their participation in the DROP. Employees who are receiving benefits from a reciprocal retirement system are excluded from membership in ASHERS.

Members are eligible for full retirement benefits under the following conditions:

- 1) At age 65 with five or more years of service.
- 2) At age 62 with 15 or more years of service.
- 3) At age 60 with 20 or more years of service.
- 4) At any age with 28 or more years of service.

A member may retire with a reduced benefit at age 55 with five years of service. The plan also provides for reciprocal service, purchase of service, and disability and survivor benefits.

The retirement benefit, paid monthly, is determined based on (1) the member's final average salary (an average of the highest 60 consecutive months' salary) and (2) the number of years and months of credited service.

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Plan Description (Continued)

During the 2021 Legislative Session, Act 149 was enacted, changing the average compensation calculation. A phased-in change to the highest 60 consecutive months for average compensation was established. When an individual is ready to retire or enroll in the DROP, the highest 36 consecutive months, as of June 30, 2021, will be compared to the highest 60 consecutive months at retirement/DROP enrollment. Whichever calculation results in the highest benefit will be used until such time that the highest 60 consecutive months always results in the highest benefit. For any active employee who transfers to an agency covered by a reciprocal system after June 30, 2021, the average compensation used for ASHERS benefit calculation will be based on salary while at ARDOT, rather than "State" high salary.

Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount shall be the amount of the benefit payable as of June 30 each year, increased by a percentage calculated using the Consumer Price Index for Urban Wage Earners & Clerical Workers for the one-year period ending December of the previous calendar year. The increase is capped at 3%, and calculated benefits for the next year will not be less than the previous year. The health-care offset is not included in the calculation for the cost of living adjustment for the next year.

C. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds are recognized in the accompanying financial statements.

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:

Arkansas State Highway Employees Retirement System Fiduciary Pension Trust Fund

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. The economic resources measurement focus and accrual basis of accounting are used in Fiduciary Fund financial statements. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

E. Federal Income Tax Status

During the year ended June 30, 2024, the System qualified under 26 USC § 401(a) and was exempt from federal income taxes under 26 USC § 501(a).

F. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, cash in State Treasury, and all short-term instruments with maturities at purchase of 90 days or less. The short-term investment fund (STIF) is created through daily sweeps of excess cash by the custodial bank and is invested in high quality money market instruments, which are stated at fair value. The short-term investment vehicle utilized is the Northern Trust Institutional Treasury Portfolio Premier.

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury totaling \$1,454 and \$390,982, 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, ASHERS 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 System 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, 2024, none of the System's bank balance of \$1,454 was exposed to custodial credit risk.

Investments

Ark. Code Ann. §§ 24-2-601 – 24-2-619 grants the ASHERS' Board of Trustees full power to invest and reinvest monies of the System and to hold, purchase, sell, assign, transfer, or dispose of any of the investments or proceeds of the investments in accordance with the prudent investor rule. The Code also states the System shall seek to invest no less than 5% or more than 10% of its portfolio in Arkansas-related investments, as long as the System's responsibility to invest in accordance with the prudent investor rule is not limited or impaired. Some specific investment guidelines established by the Board of Trustees are as follows:

- Equities – No more than 5% of the System's total assets may be invested in the equities of any one company or affiliated group of companies.
- Fixed Income – No more than 3% of the System's total assets may be invested in any one debt issue. Also, no more than 5% of the System's total assets may be invested in the debt securities of any one issuer. None of the above limitations on issues and issuers shall apply to United States Treasury or government guaranteed or agency debt securities. Debt securities purchased shall carry an investment rating of BAA or better by Moody's or a rating of BBB or better by Standard & Poor's.
- Asset Allocation – No more than 75%, with a 5% tolerance, of the System's portfolio may be invested in equities, and no more than 75%, with a 5% tolerance, may be invested in fixed income.
- Stock Index Derivatives – These may be utilized for the purpose of hedging risk and adjusting asset allocation. The Board authorizes the use of Stock Index Derivatives and exchange traded funds that trade on U.S. exchanges.
- Cash Equivalents – Short-term funds may be invested in direct U.S. Government Obligations, such as U.S. Treasury Bills, and Repurchases Agreements which are fully collateralized by U.S. Treasury issues or commercial paper with a rating of A1+P1. Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value.

The System 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

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Assets classified in Level 1 are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Assets classified in Level 3 are valued using an internal fair value as provided by the investment manager due to lack of an independent pricing source. Investments that are valued using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The fair value measurements of plan investments and securities lending collateral as of June 30, 2024, was as follows:

Plan Investments Measured at Fair Value	Total	Level 1	Level 2	Level 3
U.S. Government obligations	\$ 103,464,324		\$ 103,464,324	
Government agency securities	60,341,098	\$ 60,341,098		
Government agency mortgage-backed securities	17,914,989		17,914,989	
Domestic equities:				
Common stock	291,886,870	291,886,870		
American depository receipts	1,120,017	1,120,017		
International equities:				
Collective investment trust	126,429,345	126,429,345		
Corporate obligations	57,882,641		57,882,641	
Fixed income exchange traded funds	236,485,430	236,485,430		
Municipal bonds	11,861,014		11,861,014	
Mutual and exchange traded funds	506,539,181	506,539,181		
Master limited partnerships	22,417,384	22,417,384		
Total Plan Investments Measured at Fair Value	<u>\$ 1,436,342,293</u>	<u>\$ 1,245,219,325</u>	<u>\$ 191,122,968</u>	<u>\$ 0</u>
Short-term investments	<u>\$ 173,069,692</u>	<u>\$ 0</u>	<u>\$ 173,069,692</u>	<u>\$ 0</u>
Securities Lending Collateral:				
NILAP short-term investment pool*	<u>\$ 163,221,916</u>	<u>\$ 0</u>	<u>\$ 163,221,916</u>	<u>\$ 0</u>

*Cash collateral received totaled \$163,246,310. The amount reported in the footnote above is the market value of the collateral received at June 30, 2024.

Cash equivalents invested in short-term investment funds are valued at amortized cost, which approximates fair value. The fund may issue and redeem shares at any time.

Securities Lending Collateral – Cash collateral received from borrowers in the securities lending program are invested in a short-term investment pool, the NILAP fund, which operates as a “government money market fund.” The value of this fund has been determined by the fund administrator.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2024, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.6%.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. A formal investment policy has not been adopted by the Board of Trustees that limits investment maturities as a means of managing the System’s exposure to fair value losses arising from increasing interest rates. The following summary of investments subject to interest rate risk indicates that, as of June 30, 2024, 69.17% of plan investments have maturities that are one year or longer.

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
Short-term investments	\$ 173,069,692	\$ 173,069,692			
U.S. Government obligations	103,464,324	30,247,530	\$ 26,344,140	\$ 35,801,891	\$ 11,070,763
Government agency securities	60,341,098		60,341,098		
Government agency mortgage-backed securities	17,914,989				17,914,989
Domestic corporate bonds	57,882,641		25,622,178	26,594,821	5,665,642
Municipal bonds	11,861,014	497,215	5,574,157	4,159,605	1,630,037
Mutual and exchange traded funds	236,485,430		23,816,989	131,953,401	80,715,040
Total	<u>\$ 661,019,188</u>	<u>\$ 203,814,437</u>	<u>\$ 141,698,562</u>	<u>\$ 198,509,718</u>	<u>\$ 116,996,471</u>
<u>Securities Lending Collateral</u>					
NILAP short-term investment pool	<u>\$ 163,221,916</u>	<u>\$ 148,763,239</u>	<u>\$ 14,458,677</u>		

Corporate Bonds – As of June 30, 2024, corporate bonds, municipal bonds, and corporate fixed income exchange traded funds had a fair value of \$186,393,185. Corporate bonds are debt instruments that are issued by private corporations. They have a term maturity and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. The Board of Trustees has adopted a formal investment policy for credit risk as described in the investment guidelines outlined above. The System's exposure to credit risk as of June 30, 2024, is as follows:

Standard and Poor's		Moody's Investors Service	
Rating	Fair Value	Rating	Fair Value
AAA	\$ 173,069,692	Aaa	\$ 319,268,547
AA	310,666,569	Aa	4,819,722
A	30,450,708	A	36,291,746
BBB	138,862,126	Baa	117,777,913
BB		Ba	
B		B	
Not Rated	7,970,093	Not Rated	182,861,260
Total	<u>\$ 661,019,188</u>	Total	<u>\$ 661,019,188</u>
<u>Securities Lending Collateral</u>			
AAA		Aaa	\$ 32,561,430
AA	\$ 32,561,430	Aa	
A	130,969,105	A	
BBB		Baa	
BB		Ba	
B		B	
Not Rated	(308,619)	P1	130,969,105.00
Total	<u>\$ 163,221,916</u>	Not Rated	(308,619)
		Total	<u>\$ 163,221,916</u>

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. A formal investment policy for custodial credit risk has not been adopted by the Board of Trustees. As of June 30, 2024, no investments were exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer (not including investments issued or explicitly guaranteed by the U.S. Government, investments in mutual funds, or external investment pools). The Board of Trustees has adopted a formal investment policy for concentration of credit risk as described in the investment guidelines outlined above. As of June 30, 2024, no investments in any one issuer or company represented more than 5% of the System's total investments, and no investments in any one debt issue represented more than 3% of the System's total investments.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. A formal investment policy that limits investment in foreign currency has not been adopted by the Board of Trustees. As of June 30, 2024, there was no exposure to foreign currency risk for investments.

Depository Receipts – A depository receipt is a negotiable certificate issued by a bank to represent a foreign company's publicly traded securities. A custodian bank in the foreign country holds the actual shares, often in the form of an American depository receipt (ADR), which is listed and traded on exchanges based in the United States, or a global depository receipt (GDR), which is traded in established non-U.S. markets. Indirectly, depository receipts are exposed to foreign currency risk since the non-U.S. company would be doing business in a foreign currency. At June 30, 2024, the System had \$1,120,017 invested in ADRs.

Concentrations of Investments – Generally accepted accounting principles require each pension plan to disclose investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5% or more of the fiduciary net position. As of June 30, 2024, no investments in any one organization(s) made by the System represented 5% or more of the fiduciary net position.

Securities Lending Transactions – The ASHERS Board of Trustees' policies permit ASHERS to enter into securities lending transactions, whereby securities are lent to broker-dealers or other entities for collateral with simultaneous agreement to return the collateral for the same securities in the future. ASHERS's securities lending program is administered by The Northern Trust Company (the "Custodian"). The legal and contractual authorization for the securities lending program is contained in the Securities Lending Authorization Agreement between ASHERS and the Custodian.

There were no restrictions on the amount of security loans that can be made, and for the year ended June 30, 2024, the Custodian disclosed no known violations of legal or contractual provisions. Securities are loaned versus collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

Cash open collateral is invested in a short-term investment pool, the NILAP fund, which operates as a "government money market fund." At year-end, there was no credit risk exposure to borrowers because the value of collateral is greater than the value of the assets on loan. The Custodian provides for indemnification for any losses that might occur due to the insolvency of a borrower and the Custodian failing to live up to its contractual responsibilities relating to the lending of those securities.

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

The Custodian's responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Collateral securities received cannot be pledged or sold unless the borrower defaults. Cash collateral received is invested and appears as an asset on the Statement of Fiduciary Net Position. A corresponding liability is recorded, as the cash collateral must be returned to the borrower upon expiration of the loan. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of ASHERS loans was approximately 52 days as of June 30, 2024.

H. Contributions and Reserves

Contributions – The general financial objective of all Arkansas public employee retirement plans is to have rates of contribution that remain relatively level for Arkansas citizens from generation to generation. The Board of Trustees may propose an employer contribution percentage rate after receiving recommendations from the actuary to be approved by the State Highway Commission. The employer contribution rate was 14.9% for the fiscal year ending June 30, 2024. To determine the adequacy of the employer contribution rate and analyze the financial condition, the System has actuarial valuations prepared annually. Contributory members are required by Act 295 of 1981 to contribute 7.0% of gross wages to the System. Any employee contributions are refundable if covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with ASHERS for a period of one or more years earn interest credits, which are included in the refund.

Since State statutes governing the System establish the current employee and State contribution rates, the actuarial valuation determines the number of years required to amortize, or fund, the unfunded actuarial accrued liability (UAAL) on a level percentage of payroll basis, taking into account the payroll growth assumption and the normal cost expressed as a percent of pay. As of June 30, 2024, the System's UAAL is \$315 million, and the current funding period decreased from 19.1 years to 18.5 years. The total contribution rate of 21.9% is less than the 22.12% needed to meet the 18-year payoff of the UAAL. The actuarially determined contribution rate was not calculated in the fashion described historically. Therefore, the actuarially determined contribution is disclosed in the schedule of contributions prospectively (Schedule 2).

Reserves – Arkansas Code does not require specific reserves for the System. Ark. Code Ann. § 24-5-108 expressly guarantees that all member contributions be held in trust for the exclusive benefit of the individual contributor. As of June 30, 2024, member contributions held in reserves totaled \$85,474,096.

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.

NOTE 2: Deferred Retirement Option Plan (DROP)

Ark. Code Ann. §§ 24-5-201 – 24-5-204 authorizes the ASHERS Board of Trustees to establish a deferred retirement option plan for its members so that, in lieu of terminating employment, they might continue with employment and accept a service retirement benefit pursuant to Ark. Code Ann. § 24-5-101. The Board shall be authorized to promulgate rules and regulations for a plan to provide this deferred retirement option to its members as is appropriate to maintain a goal of zero cost to the System.

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2: Deferred Retirement Option Plan (DROP) (Continued)

The Board has established participation eligibility requirements for the DROP to be the earliest of the following:

- 1) Completion of 30 years of creditable service.
- 2) Age 60 and 20 years of creditable service.
- 3) Age 62 and 15 years of creditable service.
- 4) Age 65 and 5 years of creditable service.

A member's election to enter the DROP is irrevocable, and additional service credit cannot be accumulated. A member can remain in DROP to the later of age 65 or the completion of five years of participation in DROP, at which time employment must terminate. DROP is divided into Tier I and Tier II. Tier I consists of the first five years of participation in DROP, while Tier II is the remaining period. In Tier I, 90% of a member's retirement annuity is deposited into the member's DROP account, whereas in Tier II, the amount deposited is reduced to 79% of the member's retirement annuity.

During the DROP, the member will receive the regular cost of living adjustments to their service retirement. DROP accounts are credited with interest set at a rate determined by the Board of Trustees. Currently, the interest rate is set at 6.0%.

The member contributions, for those hired before July 1, 2021, cease during DROP until the member enters Tier II. For those hired July 1, 2021 and after, the employee contribution will continue during the entire DROP period. The employer contributes 14.9% during employee participation in the DROP. When the DROP participant terminates employment and fully retires, the member will receive the DROP balance and commence receiving the full regular annuity payments.

Members have the option to receive distribution of the DROP account balances when employment terminates or can leave the DROP account balance with the System, in which case the member will continue to receive interest on the account balance. DROP distributions can be made by members monthly by completing a withdrawal request form. Distributions from a member's DROP account can be as a lump-sum or rolled over into a tax deferred account.

At June 30, 2024, DROP balances held by the System for active members and retirees totaled \$40,824,745 and \$234,456,169, respectively.

NOTE 3: Net Pension Liability

The components of the net pension liability at June 30, 2024, were as follows:

Total pension liability	\$ 1,922,066,478
Less: plan net position	<u>1,612,068,530</u>
Net pension liability	<u><u>\$ 309,997,948</u></u>

Plan net position as a percentage of the total pension liability	83.87%
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Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2024, using the following actuarial assumptions:

Wage inflation rate	2.50%
Salary increases	3.00% - 12.00%
Investment rate of return	7.50%

Mortality Rate – The mortality rates for males and females were based on Pub-2010 Public Retirement Plans, amount weighted Mortality Table for General employees with below median income, scaled at 105% with no setback. Generational mortality improvements are in accordance with MP-2020 from the table's base year of 2010.

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3: Net Pension Liability (Continued)

Discount Rate – A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2024. The single discount rate was based on the expected rate of return on pension plan investments of 7.50% and the municipal bond rate of 4.21%. The projection of cash flows, based on the assumptions made, found that the 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.

Sensitivity of the Net Pension Liability – Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the net pension liability, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate:

<u>Sensitivity of the Net Pension Liability to</u> <u>Changes in the Discount Rate</u>			
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net pension liability	\$ 531,889,365	\$309,997,948	\$ 151,718,501

NOTE 4: Required Supplementary Schedules

Detailed historical information about the pension liabilities for which the pension plan's assets are being held and managed and the significant assumptions used to measure these liabilities are required supplementary information. This required supplementary information, prepared in accordance with the parameters of GASB Statement No. 67, is included immediately following the notes to the financial statements

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2024

Schedule 1

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
TOTAL PENSION LIABILITY										
Service cost	\$ 21,954,817	\$ 19,679,288	\$ 19,371,421	\$ 20,916,486	\$ 19,568,869	\$ 19,699,067	\$ 23,601,075	\$ 42,816,372	\$ 18,935,319	\$ 18,412,588
Interest	136,483,899	133,014,275	129,721,361	133,728,922	127,936,561	128,527,434	113,808,845	110,543,661	126,829,266	115,441,556
Benefit changes				(21,617,039)		(21,398,912)		(101,042,380)		
Difference between actual and expected experience	22,805,810	26,320,796	24,531,237	(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	(135,971,915)	(131,809,018)	(127,935,851)	(125,736,705)	(122,789,638)	(119,412,266)	(115,747,730)	(111,904,597)	(106,755,840)	(102,245,806)
NET CHANGE IN TOTAL PENSION LIABILITY	45,272,611	47,205,341	45,688,168	(41,103,806)	15,962,580	(182,317,043)	(260,312,471)	(228,529,236)	850,924,247	144,340,029
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	1,876,793,867	1,829,588,526	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
TOTAL PENSION LIABILITY - END OF YEAR (A)	\$ 1,922,066,478	\$ 1,876,793,867	\$ 1,829,588,526	\$ 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
PLAN FIDUCIARY NET POSITION										
Contributions - employer	\$ 31,269,008	\$ 29,711,732	\$ 27,992,649	\$ 24,091,743	\$ 23,208,655	\$ 19,281,642	\$ 19,294,283	\$ 19,175,401	\$ 19,231,804	\$ 19,059,012
Contributions - member	13,409,742	12,688,641	11,935,011	11,428,100	10,265,552	9,249,680	9,163,176	9,143,408	9,379,784	9,138,451
Net investment income	198,861,864	125,318,491	(158,125,788)	398,242,832	110,541,618	4,559,025	205,497,639	133,167,344	(60,344,122)	25,383,756
Benefit payments	(135,971,915)	(131,809,018)	(127,935,851)	(125,736,705)	(122,789,638)	(119,412,266)	(115,747,730)	(111,904,597)	(106,755,840)	(102,245,806)
Administrative expense	(101,906)	(146,180)	(121,760)	(105,929)	(129,016)	(74,348)	(55,703)	(130,076)	(118,199)	(91,542)
Other										
NET CHANGE IN PLAN NET POSITION	107,466,793	35,763,666	(246,255,739)	307,920,041	21,097,171	(86,396,267)	118,151,665	49,451,480	(138,606,573)	(48,756,129)
PLAN NET POSITION - BEGINNING OF YEAR	1,504,601,737	1,468,838,071	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
PLAN NET POSITION - END OF YEAR (B)	\$ 1,612,068,530	\$ 1,504,601,737	\$ 1,468,838,071	\$ 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
NET PENSION LIABILITY (ASSET) END OF YEAR (A) - (B)	\$ 309,997,948	\$ 372,192,130	\$ 360,750,455	\$ 68,806,548	\$ 417,830,395	\$ 422,964,986	\$ 518,885,762	\$ 897,349,898	\$ 1,175,330,614	\$ 185,799,794
Plan net position as a percentage of total pension liability	83.87%	80.17%	80.28%	96.14%	77.11%	76.62%	73.94%	60.15%	52.61%	88.60%
Covered employee payroll	\$ 209,859,116	\$ 199,407,600	\$ 187,870,131	\$ 159,568,380	\$ 149,976,800	\$ 146,461,468	\$ 148,527,851	\$ 141,154,763	\$ 141,906,487	\$ 140,544,393
Net pension liability as a percentage of covered employee payroll	147.72%	186.65%	192.02%	43.12%	278.60%	288.79%	349.35%	635.72%	828.24%	132.20%

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2024

Schedule 2

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially-determined contribution	\$ 31,352,952	\$ 27,956,946	\$ 23,577,701	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Actual contribution	31,269,008	29,711,732	27,992,649	\$ 24,091,743	\$ 23,208,655	\$ 19,281,642	\$ 19,294,283	\$ 19,175,401	\$ 19,231,804	\$ 19,059,012
Contribution deficiency (excess)	\$ 83,944	\$ (1,754,786)	\$ (4,414,948)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered payroll	\$209,859,116	\$199,407,600	\$187,870,131	\$159,568,380	\$149,976,800	\$ 146,461,468	\$ 148,527,851	\$ 141,154,763	\$ 141,906,487	\$ 140,544,393
Actual contribution as a percentage of covered employee payroll	14.90%	14.90%	14.90%	15.10%	15.47%	13.16%	12.99%	13.58%	13.55%	13.56%

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2024

Schedule 3

	Annual Money- Weighted Rate of Return
2015	1.74%
2016	-4.31%
2017	10.53%
2018	15.68%
2019	0.32%
2020	8.24%
2021	29.24%
2022	-9.47%
2023	8.80%
2024	13.63%

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 1: Summary of Significant Information Related to Required Supplementary Schedules

- A. Changes in Benefit Terms – There were no significant benefit changes reflected in the valuation for the year ended June 30, 2024.
- B. Changes in Assumptions – There were no significant changes in assumptions reflected in the valuation for the year ended June 30, 2024.
- C. Covered Payroll – The prior three schedules of RSI include covered payroll as a data point. Paragraph five of GASB Statement No. 82 clarified this definition by adding the following: Covered payroll is the payroll on which contributions to a pension plan are based. Beginning with the 2018 disclosures, that amount is disclosed to the extent the data allow. The amounts for previous years in the schedule have not been adjusted. Beginning with the 2022 disclosures, the covered payroll amount increased for the additional salaries for those in DROP that now have an employer contribution applied.
- D. Notes to Schedule of Contributions

The following actuarial methods and assumptions were used in the yearly valuation for the year ended June 30, 2024:

Cost method	Entry age normal
Amortization method	Level percentage of salary
Amortization period	Closed layers, beginning at 18 years
Asset valuation method	4-year smoothed market value
Investment rate of return	7.50%
Inflation	2.50%
Salary scale	3.00% to 12.00%, total payroll growth of 3.0%
Mortality	105% Pub-2010-G(B) with no setback scaled with MP-2020 for males and females

ARKANSAS STATE HIGHWAY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2024
(UNAUDITED)

Schedule 4

		For the Year Ended June 30,			
	2024	2023	2022	2021	2020
Total Assets	\$ 1,777,577,134	\$ 1,621,233,137	\$ 1,532,397,480	\$ 1,779,060,473	\$ 1,429,201,138
Total Liabilities	165,505,034	116,620,816	63,534,811	63,950,605	22,014,040
Total Deferred Inflows of Resources	3,570	10,584	24,597	16,058	13,329
Net Pension Restricted for Pension Benefits	1,612,068,530	1,504,601,737	1,468,838,071	1,715,093,810	1,407,173,769
Total Additions	243,544,358	167,739,719	(118,198,127)	433,750,251	143,976,505
Total Deductions	136,077,565	131,976,053	128,057,612	125,830,210	122,879,334