ARKANSAS TEACHER RETIREMENT SYSTEM

Annual Financial Report

June 30, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE

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LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

Arkansas Teacher Retirement System
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Fiduciary Pension Trust Fund of the Arkansas Teacher Retirement System, an office of Arkansas state government, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Arkansas Teacher 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 Fiduciary Pension Trust Fund of the Arkansas Teacher Retirement System as of June 30, 2022, and the changes in financial position 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 Teacher Retirement System are intended to present the financial position and the changes in financial position of only that portion of the Fiduciary Pension Trust Fund of the State that is attributable to the transactions of the Arkansas Teacher Retirement System. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2022, 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.

As discussed in Note 3 to the financial statements, in 2022 the office adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Other Matters

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.

500 WOODLANE STREET, SUITE 172 • LITTLE ROCK, ARKANSAS 72201-1099 • PHONE (501) 683-8600 • FAX: (501) 683-8605
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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 judgement 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 Teacher 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 Teacher 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 is comprised of 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 January 10, 2023 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

Roger Norman

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

Little Rock, Arkansas
January 10, 2023
SA1037522

Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair

Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Arkansas Teacher 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 Fiduciary Pension Trust Fund of the Arkansas Teacher Retirement System (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Arkansas Teacher Retirement System's basic financial statements, and have issued our report thereon dated January 10, 2023.

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

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
January 10, 2023

ARKANSAS TEACHER RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022

Exhibit A

	Totals
ASSETS	
Cash and cash equivalents	$ 367,097,595
Receivables:	
Member contributions	11,161,680
Employer contributions	27,931,363
Investment trades pending	22,734,956
Accrued investment income	19,710,817
Due from other funds	4,052,757
Other receivables	8,688,539
Total Receivables	94,280,112
Investments, at fair value:	
Public equities	3,653,122,876
Fixed income	1,385,176,672
Real estate	203,361,821
Pooled investments	5,411,394,714
Alternative investments	8,472,390,499
State recycling tax credits	144,000,000
Investment derivatives	10,632
Total Investments	19,269,457,214
Securities lending collateral	770,201,695
Capital assets, net of accumulated depreciation	89,714
Other assets	103,247
TOTAL ASSETS	20,501,229,577
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to OPEB	685,899
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	20,501,915,476
LIABILITIES	
Accrued expenses and other liabilities	762,426
Compensated absences	602,734
Post-employment benefit liability	3,241,556
Investment trades pending payable	30,567,166
Accrued investment expenses	12,681,186
Securities lending liability	770,276,668
Due to other funds	2,246,426
TOTAL LIABILITIES	820,378,162
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to OPEB	2,070,062
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	822,448,224
NET POSITION RESTRICTED FOR PENSION BENEFITS	$ 19,679,467,252

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

ARKANSAS TEACHER RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

	Totals
ADDITIONS	
Contributions:	
Member	$ 183,315,252
Employer	501,522,604
Total contributions	684,837,856
Investment income	
From investing activities:	
Net appreciation (depreciation) in fair value of investments	(1,220,967,830)
Interest and dividends	179,888,115
Real estate operating income	6,387,875
Total investment income (loss)	(1,034,691,840)
Less investment expense	51,906,810
Net investment income (loss)	(1,086,598,650)
From securities lending activities:	
Securities lending gross income	5,308,266
Less: securities lending expense	1,780,441
Net securities lending income (loss)	3,527,825
Other income	225,661
TOTAL ADDITIONS (LOSSES)	(398,007,308)
DEDUCTIONS	
Benefits	1,374,220,915
Refunds of contributions	10,426,792
Administrative expenses	6,650,604
TOTAL DEDUCTIONS	1,391,298,311
NET CHANGE IN NET POSITION	(1,789,305,619)
NET POSITION - BEGINNING OF YEAR	21,468,772,871
NET POSITION - END OF YEAR	$ 19,679,467,252

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 266 of 1937, as amended, established the Arkansas Teacher Retirement System (ATRS) as an office of Arkansas state government for the purpose of providing retirement benefits for public school and other public education employees. Act 427 of 1973, as amended, provided that the general administration of ATRS, responsibility for its proper operation, and responsibility for making effective the provisions of the Teacher Retirement law are vested in a 15-member Board of Trustees. The State Bank Commissioner, Treasurer of State, Auditor of State, and Commissioner of Elementary and Secondary Education are ex-officio trustees. The remaining 11 trustees are elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial ethnic group. The seven active trustees consist of one member from each of the four congressional districts; two employed in positions requiring an administrator's license, of which one must be a superintendent or an educational cooperative director; and one member employed in a position that does not require state licensure. The trustees are elected in accordance with rules adopted by the Board. Board members serve as trustees without compensation but are reimbursed for any necessary expenses incurred to attend Board meetings or perform other duties authorized by the Board.

B. Plan Description

ATRS is a cost-sharing, multiple-employer, defined benefit pension plan that covers employees of schools and education-related agencies, including Arkansas School for the Blind, Arkansas School for the Deaf, Arkansas Activities Association, State Board of Education, regional education service cooperatives, ATRS, Arkansas Educational Television Commission, area vocational-technical schools, Arkansas Rehabilitation Services, enterprises privatized by a public school district, and educational nonprofit organizations licensed and regulated by Division of Developmental Disabilities Services of the Department of Human Services.

On June 30, 2022, the number of participating employers was as follows:

Public schools	258
State colleges and universities	39
State agencies	17
Other/privatized	26
Total	340

On June 30, 2022, ATRS's membership consisted of the following:

Retirees or beneficiaries currently receiving benefits	52,748
T-DROP participants	3,251
Inactive plan members (not receiving benefits)	13,986
Active members	
Fully vested	45,504
Non-vested	22,623
Total	138,112

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Plan Description (Continued)

Members are eligible for full retirement benefits at age 60 with five or more years of actual and reciprocal service or at any age with 28 or more years of credited service. Members with 25 years of actual and reciprocal service who have not attained age 60 may receive an annuity reduced by 10/12 of 1% multiplied by the number of months by which the early retirement precedes the earlier of (1) completion of 28 years of credited service or (2) attainment of age 60. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average salary (FAS) (effective July 1, 2018, computed using the average of the annual salaries paid during the period of 5 years of credited service producing the highest annual average) and (2) the number of years of service. For active members as of June 30, 2018, a benchmark 3-year FAS was established as a minimum FAS.

ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Act 907 of 1999, effective July 1, 1999, requires all new members under contract for 181 or more days to be contributory. Act 443 of 2021, effective July 1, 2021, increased the required number of contract days to 185 or more days. Act 385 of 2005 allows noncontributory members to make an irrevocable election to become contributory on July 1 of each fiscal year.

A cost of living adjustment (COLA) is payable on July 1 of each year to retirees, certain survivors, and annuity beneficiaries who received monthly benefits for the previous 12 months. The COLA is calculated by multiplying 100% of the member's base retirement annuity times 3%. Act 780 of 2017 allows the Board of Trustees to evaluate any future COLA adjustments on an annual basis to determine if a simple or compound COLA increase will be given based on the financial condition of the system.

Act 1096 of 1995 created a teacher deferred retirement option plan (T-DROP) for members with 30 or more years of service credit. Effective September 1, 2003, Act 992 of 2003 requires employers to make contributions on behalf of all members participating in T-DROP at rates established by the Board of Trustees. Member contributions and accumulation of service credit will cease once a member enters T-DROP. During participation in T-DROP, ATRS will credit the member account with plan deposits and interest. The plan deposits will be calculated beginning with the member's plan benefit reduced by 1% for each year of credited service. The Board of Trustees may authorize early participation in T-DROP for members with at least 28 years but less than 30 years of credited service. The plan deposit for early participation will be calculated the same as the regular T-DROP deposit with a further reduction of at least .5% but not more than 1% for each month of credited service under 30 years. The T-DROP account accrues interest at a variable rate that is set annually by the ATRS Board of Trustees. T-DROP deposits into member accounts cease at the completion of 10 years of participation in the program; however, a member may continue employment and will continue to receive interest on the account balance at the 10-year plus interest rate set annually by the Board of Trustees. When T-DROP participation ceases, the member may receive a distribution as a lump-sum cash payment or monthly annuity, roll it into another tax-deferred account, or defer the distribution into a T-DROP cash balance account held by ATRS.

Disability retirement benefits are payable to members who are vested and demonstrate total and permanent incapacity to perform the duties of their position while in active employment. The disability annuity is computed in the same manner as the age and service annuity.

Survivor benefits are payable to qualified survivors upon the death of an active, vested member. Eligible spouse survivors receive a survivor annuity that is based on the member's years of service credit prior to their death, and minor child survivors receive a percentage of the member's highest salary earned. ATRS also provides a lump sum death benefit for active and retired members with 10 or more years of actual service. The minimum benefit amount is $6,667 and an additional amount is provided based on the member's retirement date and years of contributory service up to a $10,000 maximum.

NOTE 1: Summary of Significant Accounting Policies (Continued)

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, if applicable to this Agency, 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 Teacher Retirement System 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, 2022, ATRS was a qualified plan 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, imprest accounts, cash on hand, cash in State Treasury, cash on deposit with investment managers, and short-term investment funds (STIF). The STIF accounts are created through daily sweeps of excess cash by the custodial bank into bank-sponsored commingled funds that are invested in U.S. Government and agency securities and other short-term investments. The STIF accounts have a weighted average maturity of 90 days or less and the holdings are stated at fair value.

G. Deposits and Investments

Deposits

Deposits consist of cash in bank, cash in State Treasury, cash on deposit with investment managers, and cash in short-term investment funds totaling $2,693,081, $3,226,786, $110,310,808, and $250,866,845, respectively. The STIF account is valued at amortized cost which approximates fair value and all other deposits are carried at cost. 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, 2022, none of the Agency's bank balance of $2,726,389 was exposed to custodial credit risk.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Deposits (Continued)

As of June 30, 2022, $1,958,613 of $110,722,803 in cash held by investment managers was exposed to custodial credit risk as it was uninsured and uncollateralized.

As of June 30, 2022, none of the $250,866,845 balance in cash in the STIF account was exposed to custodial credit risk as it was collateralized with securities held by the custodial agent in the name of ATRS.

Investments

Ark. Code Ann. §§ 24-2-601 — 24-2-619 authorizes the ATRS Board of Trustees to have full power to invest and reinvest monies of ATRS and to hold, purchase, sell, assign, transfer or dispose of any of the investments, or investment proceeds in accordance with the prudent investor rule.

Each investment manager is required to invest within the specific guidelines and parameters set by the Board of Trustees. Asset allocation guidelines have been established as follows:

Asset Allocation	Minimum	Target	Maximum
Total equity	48.0%	53.0%	58.0%
Fixed income	13.0%	15.0%	17.0%
Alternatives	N/A*	5.0%	N/A*
Real assets***	N/A*	15.0%	N/A*
Private equity	N/A*	12.0%	N/A*
Cash equivalents	0.0%	0.0%	5.0%

*Due to the illiquid nature of alternatives, real assets, and private equity, it is not prudent to set rebalancing ranges for these asset classes.

**Additional allocations to total equity may be made beyond the maximum range to serve as a placeholder for unfunded and uncommitted alternatives, real assets, and private equity.

***Real assets include real estate, timber, agriculture, and infrastructure.

The fair value measurement of investments is categorized within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. In instances where inputs used to measure fair value fall into different levels, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The hierarchy of inputs is defined as follows:

- Level 1: Unadjusted quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

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. For investments that do not have a readily determinable fair value and fall outside of the fair value hierarchy, the system establishes the value by utilizing the Net Asset Value (NAV) or its equivalent as a practical expedient.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument(s) and should not be perceived as the particular investment's risk. The fair value measurement of plan investments and securities lending collateral as of June 30, 2022, was as follows:

Investments measured at fair value	Total	Level 1	Level 2	Level 3
Public equity investments:				
Domestic equities	$ 2,476,613,809	$ 2,476,613,809		
International equities	994,157,696	994,157,696		
Preferred equities	182,351,371	171,495,838		$ 10,855,533
Fixed income investments:				
U.S. Government obligations	72,496,599		$ 72,496,599	
Corporate obligations	990,097,138		990,097,138	
Asset- and mortgage-backed securities	39,020,680		39,020,680	
Fixed income funds	33,281,653		33,281,653	
Promissory notes	250,280,602			250,280,602
Real estate investments:				
Real estate	70,559,802			70,559,802
Real estate investment trusts	132,802,019	132,802,019		
State recycling tax credits:	144,000,000		144,000,000	
Derivative investments:				
Forward contracts	10,632		10,632	
Total plan investments at fair value	5,385,672,001	$ 3,775,069,362	$ 1,278,906,702	$ 331,695,937
Investments measured at net asset value (NAV)				
Pooled investments:				
Collective investment trusts	4,282,835,628			
Closed end funds	646,963,161			
Exchange traded funds	24,392,712			
Mutual funds	457,203,213			
Alternative investments:				
Private equity funds	3,196,118,061			
Real estate funds	2,013,967,561			
Hedge funds	1,032,960,553			
Other private investments	2,229,344,324			
Total plan investments at net asset value	13,883,785,213			
Total plan investments	$ 19,269,457,214			
Securities Lending Collateral:				
Compass fund*	$ 770,201,695			

*Cash collateral received totaled $770,276,668. The amount reported in the GASB Statement No. 40 footnote above is the market value of the collateral received at June 30, 2022.

Public equity investments are classified as Level 1 and valued based on published market prices and quotations from either national security exchanges or active markets for those securities.

Fixed income investments are classified as Level 2 and include publicly traded securities in inactive markets. Investments in this category are sourced from reputable pricing vendors using price matrix models and techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Real estate consists of direct real estate investments and real estate investment trusts. Direct real estate investments are classified as Level 3 and are comprised mostly of owned properties leased to commercial enterprises. These investments are valued using professional property valuations or appraisals, net of debt borrowed against the related assets. Appraisals and valuations are updated every three years. Real estate investment trust is valued at net asset value (NAV) per share calculated at the estimated market value of the total assets less liabilities divided by the number of common shares outstanding. These are classified as Level 1 since they report a daily NAV per share and are actively traded on either national security exchanges or active markets for those securities.

Pooled investments consist of collective investments trusts, closed end funds, exchange traded funds and mutual funds. The fair value of these investments is determined based on NAV per share calculated as assets less liabilities divided by the number of shares owned. These investments are classified as Level 1 since they report a daily NAV per share and are actively traded on either national security exchanges or active markets for those securities.

Derivative investments include forward contracts and warrants and are classified as Level 2 and valued using observable exchange, dealer, or broker market pricing.

Alternative Investments are valued using the NAV per share (or its equivalent) but generally do not have a readily obtainable market value. These values are based on the capital account balance of the general partner reports at the end of each reporting period, adjusted by subsequent contributions, distributions, management fees, and changes in values of foreign currency. There are inherent uncertainties in estimating fair values for these types of investments, and it is possible that the estimates will change in the near-term or the subsequent sale of assets will be different from the reported net asset value. Generally, the investments cannot be redeemed or have certain redemption restrictions and distributions are from the liquidation of the underlying assets. The expected holding period is dependent on the discretion of the fund manager.

The unfunded commitments and redemption terms for alternative investments measured at the NAV per share (or its equivalent) are presented in the following table:

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Investments measured at net asset value (NAV)	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled investments:				
Collective investment trusts	$ 4,282,835,628		Daily - Monthly	1-15 days
Closed end funds	646,963,161		Daily	Daily
Exchange traded funds	24,392,712		Daily	Daily
Mutual funds	457,203,213		Daily	Daily
Alternative investments:				
Private equity funds				
Buyout funds	1,252,463,922	$ 649,011,101	N/A	N/A
Distressed debt funds	30,180,581	34,882,798	N/A	N/A
Growth equity funds	38,574,317	18,757,033	N/A	N/A
Hard assets	235,302,129	42,477,803	N/A	N/A
Infrastructure funds	383,597,421	146,011,539	Quarterly - Annually	90 days
Mezzanine funds	40,506,399	17,243,201	N/A	N/A
Multi-strategy funds	521,273,742	225,670,362	N/A	N/A
Structured capital funds	52,112,301	48,765,017	N/A	N/A
Turnaround funds	113,299,673	78,437,309	N/A	N/A
Venture capital funds	528,807,576	142,684,560	N/A	N/A
Real estate funds				
Core funds	894,534,716	70,000,000	Quarterly	30-90 days
Debt funds	104,932,514	80,303,758	Quarterly	90 days
Farmland funds	246,224,783	2,134,323	Quarterly	60 days
Opportunistic funds	140,976,463	372,277,058	N/A	N/A
Timberland funds	335,923,075		Quarterly	90 days
Value added funds	291,376,010	315,278,896	N/A	N/A
Hedge funds				
Co-investment funds	42,593,287	59,880,757	Quarterly	65 days
Credit funds	158,929,830		Quarterly - Annually	90 days
Equity funds	34,804,338		Quarterly	60 days
Event driven funds	70,618,769		Annually	90 days
Global macro funds	192,735,536		Monthly	3-15 days
Reinsurance funds	158,903,286		Semi-annually - Annually	60-90 days
Relative value funds	85,622,296		Daily - Quarterly	45 days
Risk premia funds	288,753,211		Weekly - Monthly	3-5 days
Other				
Private investments	2,229,344,324		Daily - Monthly	3-10 days
Total plan investments at net asset value	$ 13,883,785,213	$ 2,303,815,515		

Private Equity Funds – Private equity funds include 67 buyout funds, 3 distressed debt funds, 3 growth equity funds, 13 hard asset funds, 11 infrastructure funds, 4 mezzanine funds, 5 multi-strategy funds, 4 structured capital funds, 9 turnaround funds, and 15 venture capital funds that invest mostly in private companies across a variety of industries. The value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. These investments cannot be easily redeemed. The nature of private equity investments is that distributions are received through the liquidation of the underlying assets of the fund. The expected holding period of a private equity portfolio company is 2 to 10 years.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Real Estate Funds – Real estate funds include 7 core funds, 9 debt funds, 2 farmland funds, 20 opportunistic funds, 2 timberland funds, and 21 value added funds that invest primarily in the United States, Europe, and Asia. Fund investments can be made in the debt, equity, or a combination of both in real estate property ventures. The value of the investments in this asset class have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. These investments can be redeemed with proper notification to the fund manager. Distributions from each fund may be received as cash flows from operations or return of capital from sales of assets. The expected holding period of underlying assets in the real estate funds is 2 to 10 years.

Hedge Funds – Hedge funds consist of 1 co-investment fund, 4 credit funds, 1 equity fund, 1 event driven fund, 2 global macro funds, 12 re-insurance funds, 1 relative value fund and 3 risk premia funds. The value of the investments in this asset class have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. Redemption ranges from monthly to annually depending on the manager (with the exception of one fund that currently has a 1-year hold). Distributions are received through liquidation of the underlying assets. The expected holding period is dependent on the discretion of the fund manager.

Securities Lending Collateral - Cash collateral received from borrowers in the securities lending program is invested in a collective investment fund comprised of a liquidity pool. The value of this fund has been determined by the fund administrator using the NAV per share (or its equivalent).

Concentration of Investments – Generally accepted accounting principles require each pension plan to disclose investments (other than those issued or explicitly guaranteed by the U.S. Government) in any one organization that represent 5% or more of the pension plan's fiduciary net position. As of June 30, 2022, the Agency had investments of 5% or more of fiduciary net position in the following organizations:

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Organization		Net Asset Value
Blackrock Institutional Trust Company, N.A.		
BlackRock MSCI ACWI IMI Index Fund	$	838,337,834
BlackRock U.S. Core Plus Bond Fund		250,927,113
Total	$	1,089,264,947
Franklin Park Associates, LLC		
ATRS/FP Private Equity Fund, LP	$	412,492,667
Franklin Park Corporate Finance Access Fund, LP		45,106,100
Franklin Park Corporate Finance Access Fund II, LP		7,211,364
Franklin Park International Fund 2011, LP		13,301,480
Franklin Park International Fund 2012, LP		8,317,828
Franklin Park International Fund 2013, LP		15,929,282
Franklin Park International Fund 2014, LP		17,625,279
Franklin Park International Fund 2015, LP		24,546,668
Franklin Park International Fund 2016, LP		23,586,733
Franklin Park International Fund 2017, LP		31,027,813
Franklin Park International Fund 2018, LP		26,014,716
Franklin Park International Fund 2019, LP		20,224,069
Franklin Park International Fund X, LP		14,319,630
Franklin Park International Fund XI, LP		480,184
Franklin Park Venture Capital Fund XIII, LP		35,872,568
Franklin Park Venture Capital Fund XIV, LP		3,697,396
Franklin Park Venture Capital Opportunity Fund, LP		10,271,875
Franklin Park Venture Fund Series 2008, LP		24,448,288
Franklin Park Venture Fund Series 2009, LP		11,134,168
Franklin Park Venture Fund Series 2010, LP		33,410,818
Franklin Park Venture Fund Series 2011, LP		57,842,352
Franklin Park Venture Fund Series 2012, LP		44,793,926
Franklin Park Venture Fund Series 2013, LP		46,124,304
Franklin Park Venture Fund Series 2014, LP		65,936,497
Franklin Park Venture Fund Series 2015, LP		46,336,614
Franklin Park Venture Fund Series 2016, LP		47,834,792
Franklin Park Venture Fund Series 2017, LP		31,125,527
Franklin Park Venture Fund Series 2018, LP		40,557,057
Franklin Park Venture Fund Series 2019, LP		29,421,395
Total	$	1,188,991,390
Jacobs Levy Equity Management, Inc.		
Jacobs Levy 130-30 Core 3 Fund, LLC	$	1,046,063,010
State Street Global Advisors Trust Company		
State Street MSCI ACWI IMI Index Securities Lending Fund	$	928,297,265
State Street U.S. Aggregate Bond Index Non-Lending Fund		857,865,268
Total	$	1,786,162,533

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

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, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -5.15%.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary shown below indicates that 96% of the Agency's investment maturities are one year or longer.

		Investment Maturities (In Years)			
Investment Type	Total	Less than 1	1 - 5	6 - 10	More than 10
Convertible preferred equities	$ 111,492,189	$ 88,689,968	$ 4,649,249	$ 148,965	$ 18,004,007
U.S. Government obligations	72,496,599	11,245,822	33,057,202	22,864,844	5,328,731
Corporate obligations	990,097,138	30,243,815	675,050,729	211,025,466	73,777,128
Asset- and mortgage-backed securities	39,020,680		6,494,515	7,025,045	25,501,120
Fixed income funds	33,281,653		33,281,653		
Promissory notes	250,280,602		5,015,816		245,264,786
Collective investment trusts	1,844,583,839		735,791,458	1,108,792,381	
Private investments	355,299,695			355,299,695	
State recycling tax credits	144,000,000	16,000,000	64,000,000	64,000,000	
Total	$ 3,840,552,395	$ 146,179,605	$ 1,557,340,622	$ 1,769,156,396	$ 367,875,772

Securities Lending Collateral		
Compass fund	$ 635,294,081	$ 635,294,081

Asset-Backed Securities – As of June 30, 2022, ATRS held asset-backed securities with a fair value of $28,103,232. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. ATRS's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Mortgage-Backed Securities – As of June 30, 2022, mortgage-backed securities had a fair value of $5,265,158. The yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. Although the full amount of principal will be received if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost.

Corporate Bonds – As of June 30, 2022, ATRS held corporate bonds with a fair value of $240,616,402. Corporate bonds are debt instruments that are issued by private corporations. These bonds 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.

Convertible Corporate Bonds – As of June 30, 2022, ATRS held convertible bonds with a fair value of $746,480,737. Convertible bonds convey an option to the bondholder to exchange each bond for a specified number of shares of common stock of the corporation. Convertible bonds generally offer lower coupon rates and promised yields to maturity in exchange for the value of the option to trade the bond into stock.

Promissory Notes – ATRS also held 4 promissory notes with a fair value of $250,280,602 at June 30, 2022. Promissory notes are a form of debt that companies use to raise money in exchange for payment of a fixed amount of periodic income at a specified date or on demand. Three unsecured promissory notes were issued to Big River Steel Holdings, LLC and one secured note was issued to Highland LP.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The risk is measured by the credit quality of investments in debt securities as described by nationally-recognized statistical rating organizations. A formal investment policy that limits investment in debt based on their statistical rating as a means of managing exposure to credit risk has not been adopted by the Agency.

As of June 30, 2022, the Agency's exposure to credit risk as rated by Standard and Poor's and Moody's Investor Service is as follows:

Standard and Poor's		Moody's Investors Service	
Rating	Total	Rating	Total
AAA	$ 8,662,840	Aaa	$ 8,117,880
AA	1,625,339	Aa	253,224,104
A	276,368,412	A	18,209,183
BBB	175,211,479	Baa	145,581,016
BB	109,946,379	Ba	90,747,634
B	39,457,363	B	58,034,579
CCC or below	21,351,357	Caa or below	5,185,764
Unrated	3,135,432,627	Unrated	3,188,955,636
Total	$ 3,768,055,796	Total	$ 3,768,055,796
Securities Lending Collateral			
Unrated	$ 635,294,081	Unrated	$ 635,294,081

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 Agency 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 Agency, and are held by either the counterparty or the counterparty's trust department or agent but not in the Agency's name. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that investments may not be returned. As of June 30, 2022, none of the Agency's 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 the Agency's investment in a single issuer (not including investments issued or explicitly guaranteed by the U.S. Government, investment in mutual funds, external investment pools, or other pooled investments). The Agency has not adopted a formal investment policy to limit the amount it may invest in any one issuer to manage the concentration of credit risk. As of June 30, 2022, none of the Agency's investments in any one issuer represent more than 5% of 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. The Agency does not have an investment policy that limits investment in foreign currency.

The Agency's exposure to foreign currency risk in U.S. dollars for investments and deposits at June 30, 2022, was as follows:

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

Currency		Fair Value	Cash Deposits	Investments: Equities	Fixed Income	Real Estate	Pooled Investments	Alternative Investments	Forward Contracts	Securities Lending
Argentine Peso	ARS	$ 540,017	$ 303,299		$ 236,718					
Australian Dollar	AUD	5,838,756				$ 5,838,756				
Brazilian Real	BRL	29,941,708	62,885	$ 27,294,097	2,584,726					
British Pound Sterling	GBP	363,983,292	45,507	141,213,417		19,668,431	$ 201,644,118		$ 1,411,819	
Canadian Dollar	CAD	31,919,584	147	20,784,053		7,582,846	3,552,538			
Chilean Peso	CLP	3,201,655		3,201,655						
Euro	EUR	484,056,557	59,759	407,713,759	441,771			$ 76,370,747	(529,479)	
Hong Kong Dollar	HKD	122,536,350	385,995	117,729,030			3,675,911		745,414	
Hungarian Forint	HUF	3,282,734		3,282,734						
Indian Rupee	INR	411,996	411,996							
Japanese Yen	JPY	264,896,133	734,312	129,011,883					242,324	$ 134,907,614
Mexican Peso	MXN	8,247,089		4,686,365	3,560,724					
New Taiwan Dollar	TWD	23,021,779	2	23,021,777						
Philippine Peso	PHP	3,452,219	7,015	3,445,204						
Singapore Dollar	SGD	4,786,316				4,786,316				
South African Rand	ZAR	8,501,610	75	8,501,535						
South Korean Won	KRW	62,183,514	2	62,092,136					91,376	
Swedish Krona	SEK	38,866,885	541	39,953,154					(1,086,810)	
Swiss Franc	CHF	56,680,910	(52,954)	56,645,764					88,100	
Thailand Baht	THB	5,584,782		5,584,782						
Yuan Renminbi	CNY	32	32							
Totals		$ 1,521,933,918	$ 1,958,613	$ 1,054,161,345	$ 6,823,939	$ 37,876,349	$ 208,872,567	$ 76,370,747	$ 962,744	$ 134,907,614

For Forward Currency Contracts in the schedule above, a positive number represents the market value of contracts to purchase that currency in excess of the market value of contracts to sell that currency. A negative number, therefore, represents the market value of contracts to sell foreign currency in excess of contracts to purchase that currency.

Derivatives – Derivative instruments are financial contracts or agreements whose values depend on the values of one or more underlying assets, reference rates, and/or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, options contracts, forward foreign currency exchange and rights. ATRS investment guidelines state that derivatives may be used to reduce the risk in a portfolio but should not be used to create a position of leverage or substantially increase the risk of the overall portfolio. Futures and options should be matched by cash or cash equivalent securities, and all short futures positions should be matched by equivalent long security positions. Each investment manager's derivative usage is specified in the investment management agreement or specific guidelines.

At June 30, 2022, the fair value balance of derivative instruments and the changes in fair value for the year then ended, were as follows:

	Changes in Fair Value		Fair Value at June 30, 2022	
Type	Classification	Amount	Classification	Amount
Foreign currency forwards	Investment income	$ (217,721)	Investments	$ 10,632
Warrants	Investment income	$ (121,672)	Investments	$ 0

Foreign Currency Forwards – ATRS enters into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as unrealized appreciation (depreciation) in fair value of investments, a component of investment income, in the statement of changes in plan net position. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net appreciation (depreciation) in fair value of investments, a component of investment income, in the statement of changes in plan net position. At June 30, 2022, ATRS had outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $4,390,024 and market values of $4,387,267, resulting in a net loss of $2,757. Outstanding forward exchange currency contracts to sell foreign currencies with contract amounts of $3,437,912 had market values of $3,424,523, resulting in a net gain of $13,389.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Deposits and Investments (Continued)

Investments (Continued)

The net fair value and net notional amounts of foreign currency forwards as of June 30, 2022, were as follows:

Foreign Currency Forwards	Fair Value at June 30, 2022			
	Fair Value		Net Notional	
British Pound Sterling	$	7,209	GBP	101,105
Euro		3,159	EUR	1,556,205
Hong Kong Dollar		42	HKD	4,600,458
Swedish Krona		2,979	SEK	11,136,980
United States Dollar		(2,757)	USD	4,390,024
Totals	$	10,632		

Securities Lending Transactions – Arkansas Code Annotated and Board policy permit ATRS to participate in a securities lending program administrated by State Street Bank (the "Custodian"). The Custodian enters into agreements with broker-dealers or other entities to loan securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. There were no restrictions on the dollar amount of securities loaned by ATRS. Securities on loan to participating brokers at year-end include U.S. Government securities, corporate securities, and international securities. Brokers who borrow the securities provide cash or other collateral, including securities issued or guaranteed by the U.S. Government. Collateral must be provided in the amount of at least 100% of the market value of the loaned securities. ATRS cannot pledge or sell collateral securities received unless the borrower defaults. The cash collateral received on each loan is invested in a collective investment fund comprised of a liquidity pool and a duration pool.

As of June 30, 2022, the liquidity pool had an average duration of 3.90 days and an average weighted final maturity of 76.56 days for USD collateral. Because the loans are terminable at will, their duration generally will not match the duration of the investments made with cash collateral.

At year-end, ATRS had no credit risk exposure to borrowers due to the custodian's indemnification agreement to purchase replacement securities, or return cash collateral in the event a borrower fails to return a loaned security or fails to pay the Agency for income of the securities while on loan. No borrowers failed to return loaned securities or pay distributions during the year. Investments made with cash collateral appear as an asset on the Statement of Plan Net Position. Corresponding liabilities are recorded, as ATRS must return the cash collateral to the borrower upon expiration of the loan.

ATRS is exposed to investment risk, including the possible loss of principal value in the cash collateral pool, due to fluctuation in the market value of the assets held by the cash collateral pool. As of June 30, 2022, the fair value of the securities lending liabilities exceeded the securities lending assets by $74,974.

H. 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). 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. Depreciation is reported for capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

Assets:	Years
Equipment	5-20

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Fiduciary activities:				
Equipment	$ 970,414		$ (48,478)	$ 921,936
Less: Accumulated depreciation	864,174	$ 16,448	(48,400)	832,222
Fiduciary activities, net	$ 106,240	$ (16,448)	$ (78)	$ 89,714

I. 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 payable attributable to this Agency's employee annual and sick leave as of June 30, 2022 and 2021, amounted to $602,734 and $597,032, respectively. The net changes to compensated absences payable during the year ended June 30, 2022, amounted to $5,702.

J. Post-Employment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

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

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DTSS-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retires 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 $550 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. The portion of the State's annual OPEB liability attributable to ATRS as of June 30, 2022, is $3,241,556.

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. 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.

L. Contributions

The Agency's funding policy provides for periodic employer contributions at statutorily-established rates based on annual actuarial valuations. The employer contribution rate was 14.75% for the fiscal year ending June 30, 2022. Contributory members are required to contribute 6.75% of gross wages to ATRS. Employee contributions are refundable if ATRS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with ATRS for a period of one or more years earn interest credits, which are included in the refund.

M. Reserves

In accordance with the provisions of Ark. Code Ann. § 24-7-405, ATRS must maintain reserve accounts showing plan net position available for benefits. At June 30, 2022, the reserve accounts were funded at a level that complied with the Code provisions.

	Total
Members' deposit account reserve	$ 12,705,935,722
Employers' accumulation account reserve	(7,008,782,952)
Retirement reserve	13,474,952,199
Teacher deferred retirement option plan account reserve	387,233,520
Survivor benefit account reserve	110,412,603
Income - expense account reserve	9,716,160
Total	$ 19,679,467,252

The Code provisions define each of the reserve accounts as follows:

Members' Deposit Account Reserve – The account in which members' contributions shall be accumulated with regular interest and from which shall be made transfers and refunds of contributions.

Employers' Accumulation Account Reserve – The account in which shall be accumulated the employer's contributions to ATRS and from which shall be made transfers as provided in the Code.

Retirement Reserve – The account from which shall be paid all annuities and benefits in lieu of annuities payable as provided in this act to retirants who retired on account of superannuation or disability and to beneficiaries of such retirants.

Teacher Deferred Retirement Option Plan Account Reserve – The account in which shall be accumulated plan deposits made on behalf of the member with plan interest.

Survivor Benefit Account Reserve – The account from which shall be paid survivor benefits payable as provided in this act.

Income - Expense Account Reserve – The account to which shall be credited all investment income from invested assets of ATRS. It shall also be the account in which shall be accumulated the contributions made by employers for the administrative expenses of ATRS, from which shall be made annual transfers of interest credits and excess amounts to the other accounts of ATRS, and from which shall be paid all the expenses of the Board necessary for the administration and operation of ATRS.

NOTE 2: Net Pension Liability

The components of the net pension liability of the participating employers at June 30, 2022, were as follows:

Total pension liability	$	24,957,898,206
Plan net position		(19,679,467,252)
Net pension liability	$	5,278,430,954
Plan net position as a percentage of the total pension liability		78.85%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Wage inflation rate	2.75%
Salary increases	2.75 - 7.75%
Investment rate of return	7.25%
Mortality table	Pub-2010 Healthy Retired, General Disabled Retiree, and General Employee Mortality weighted tables were used for males and females. Mortality rates were adjusted for future mortality improvements using projection scale MP-2020 from 2010.

	Scaling Factor	
Table	Males	Females
Healthy Retirees	105%	105%
Disabled Retirees	104%	104%
Active Members	100%	100%

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2020.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major 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 inflation. Best estimates of geometric real rates of return were adopted by the plan’s trustees after considering input from the plan’s investment consultant and actuary.

For each major asset class that is included in the pension plan target asset allocation as of June 30, 2022, these best estimates are summarized in the following table:

Asset Allocation	Target	Long-Term Expected Real Rate of Return
Total equity	53.0%	5.3%
Fixed income	15.0%	1.3%
Alternatives	5.0%	4.8%
Real assets	15.0%	4.0%
Private equity	12.0%	7.6%
Cash equivalents	0.0%	0.5%
	100.0%	

NOTE 2: Net Pension Liability (Continued)

Single Discount Rate – A single discount rate of 7.25% was used to measure the total pension liability based on the expected rate of return on pension plan investments. The fiscal year 2022 member and employer contribution rates are 6.75% and 14.75% of active member payroll, respectively. Although not all members contribute, the member and employer rates are scheduled to increase by 0.25% increments ending in fiscal year 2023. The ultimate member and employer rates will be 7% and 15%, respectively. The projection of cash flows used to determine this single discount rate assumed that member and employer contributions will be made in accordance with this schedule. This includes payroll for current T-DROP participants and Return to Work retirees. 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.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.25%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher than the current rate:

	Sensitivity of the Net Pension Liability to the Single Discount Rate		
	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
Net pension liability	$ 8,391,000,499	$ 5,278,430,954	$ 2,696,128,616

NOTE 3: New Accounting Pronouncement

The Agency implemented GASB Statement No. 87, *Leases*, in the fiscal year ended June 30, 2022. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. GASB Statement No. 87 establishes a single model for lease accounting based on the principle that leases are financing arrangements of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources.

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 TEACHER RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2022

Schedule 1

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013*
TOTAL PENSION LIABILITY										
Service cost	$ 379,267,685	$ 340,401,007	$ 331,035,218	$ 325,464,537	$ 315,864,318	$ 307,786,503	$ 305,086,337	$ 298,134,477	$ 326,999,276	
Interest	1,720,782,101	1,655,575,883	1,608,463,162	1,551,511,422	1,504,613,059	1,485,759,965	1,433,768,167	1,371,168,271	1,326,709,192	
Changes in benefit terms						(469,205,711)			(27,405,705)	
Difference between actual and expected experience	4,880,583	108,860,237	(24,869,157)	119,427,343	(7,365,993)	(76,812,667)	(15,341,738)	123,519,055	(103,017,525)	
Changes in assumptions		887,447,380				1,374,950,899				
Benefit payments	(1,374,220,915)	(1,308,163,750)	(1,255,065,793)	(1,205,326,555)	(1,160,738,238)	(1,092,952,357)	(1,035,958,950)	(970,719,484)	(914,250,015)	
Refunds	(10,426,792)	(9,463,375)	(9,592,091)	(9,679,783)	(9,455,405)	(10,874,003)	(10,145,471)	(10,774,122)	(10,485,103)	
NET CHANGE IN TOTAL PENSION LIABILITY	720,282,662	1,674,657,382	649,971,339	781,396,964	642,917,741	1,518,652,629	677,408,345	811,328,197	598,550,120	
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	24,237,615,544	22,562,958,162	21,912,986,823	21,131,589,859	20,488,672,118	18,970,019,489	18,292,611,144	17,481,282,947	16,882,732,827	
TOTAL PENSION LIABILITY - END OF YEAR (A)	$ 24,957,898,206	$ 24,237,615,544	$ 22,562,958,162	$ 21,912,986,823	$ 21,131,589,859	$ 20,488,672,118	$ 18,970,019,489	$ 18,292,611,144	$17,481,282,947	
PLAN NET POSITION										
Contributions - employer	$ 501,522,604	$ 472,567,147	$ 446,228,128	$ 430,864,656	$ 424,488,126	$ 414,954,939	$ 410,358,229	$ 408,230,472	$ 404,920,440	
Contributions - member	183,315,252	168,129,972	153,105,134	141,885,632	138,766,747	133,109,939	131,100,983	128,555,684	125,225,906	
Net investment income	(1,590,291,257)	5,250,953,451	(165,766,491)	898,384,867	1,824,094,695	2,289,818,591	35,579,657	632,166,951	2,429,334,097	
Benefit payments	(1,374,220,915)	(1,308,163,750)	(1,255,065,793)	(1,205,326,555)	(1,160,738,237)	(1,092,952,357)	(1,035,958,950)	(970,719,484)	(914,250,015)	
Refunds	(10,426,792)	(9,463,375)	(9,592,091)	(9,679,783)	(9,455,405)	(10,874,003)	(10,145,471)	(10,774,122)	(10,485,103)	
Administrative expense	(6,650,604)	(7,326,797)	(8,454,436)	(7,134,784)	(9,336,430)	(7,825,595)	(8,059,030)	(8,034,857)	(8,034,236)	
Other	507,446,092									
NET CHANGE IN PLAN NET POSITION	(1,789,305,620)	4,566,696,648	(839,545,549)	248,994,033	1,207,819,496	1,726,231,514	(477,124,582)	179,424,644	2,026,711,089	
PLAN NET POSITION - BEGINNING OF YEAR	21,468,772,872	16,902,076,224	17,741,621,773	17,492,627,740	16,284,808,244	14,558,576,730	15,035,701,312	14,856,276,668	12,829,565,579	
PLAN NET POSITION - END OF YEAR (B)	$ 19,679,467,252	$ 21,468,772,872	$ 16,902,076,224	$ 17,741,621,773	$ 17,492,627,740	$ 16,284,808,244	$ 14,558,576,730	$ 15,035,701,312	$14,856,276,668	
NET PENSION LIABILITY - END OF YEAR (A) - (B)	$ 5,278,430,954	$ 2,768,842,672	$ 5,660,881,938	$ 4,171,365,050	$ 3,638,962,119	$ 4,203,863,874	$ 4,411,442,759	$ 3,256,909,832	$ 2,625,006,279	
Plan net position as a percentage of total pension liability	78.85%	88.58%	74.91%	80.96%	82.78%	79.48%	76.75%	82.20%	84.98%	
Covered employee payroll	$ 3,320,346,417	$ 3,204,720,806	$ 3,077,558,814	$ 3,027,154,131	$ 2,986,026,715	$ 2,921,965,125	$ 2,888,392,668	$ 2,873,988,053	$ 2,850,860,174	
Net pension liability as a percentage of covered employee payroll	158.97%	86.40%	183.94%	137.80%	121.87%	143.87%	152.73%	113.32%	92.08%	

* ATRS is only required to present those years for which information is available until the full 10-year trend is completed.

ARKANSAS TEACHER RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2022

Schedule 2

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013*
Actuarially-determined contribution	$ 493,022,221	$ 474,196,689	$ 450,612,124	$ 447,791,482	$ 422,365,685	$ 423,846,831	$ 437,434,470	$ 474,773,530	$ 485,904,529	
Actual contribution	501,522,604	472,567,147	446,228,128	430,864,656	424,488,126	414,954,939	410,358,229	408,230,472	404,920,440	
Contribution deficiency (excess)	$ (8,500,383)	$ 1,629,542	$ 4,383,996	$ 16,926,826	$ (2,122,441)	$ 8,891,892	$ 27,076,241	$ 66,543,058	$ 80,984,089	
Covered employee payroll	$ 3,320,346,417	$ 3,204,720,806	$ 3,077,558,814	$ 3,027,154,131	$ 2,986,026,715	$ 2,921,965,125	$ 2,888,392,668	$ 2,873,988,053	$ 2,850,860,174	
Actual contribution as a percentage of covered employee payroll	15.10%	14.75%	14.50%	14.23%	14.22%	14.20%	14.21%	14.20%	14.20%	

* ATRS is only required to present those years for which information is available until the full 10-year trend is completed.

Schedule 3

ARKANSAS TEACHER RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013*
Annual money-weighted rate of return	-5.15%	31.82%	-0.96%	5.25%	11.46%	16.09%	0.24%	4.34%	19.27%	

* ATRS is only required to present those years for which information is available until the full 10-year trend is completed.

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

A. Schedule of Contributions

1. Changes in Benefit Terms

There were no significant changes in benefit terms for the year ended June 30, 2022.

2. Changes in Assumptions

There were no significant changes in assumptions for the year ended June 30, 2022.

3. Methods and Assumptions Used in Calculations of Actuarially-Determined Contributions

Valuation date:	June 30, 2020
	Actuarially determined contribution rates are calculated as of June 30 in the year which is one year prior to the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule of contributions:

Actuarial cost method	Entry age normal; funding to retirement
Amortization method	Level percentage of payroll
Amortization period	30 years
Asset valuation method	4-year smoothed market for funding purposes ; 20% corridor
Payroll growth	2.75%
Salary increases	2.75 to 7.75% including inflation
Investment rate of return	7.50%
Mortality table	RP-2014 Healthy Annuitant, Disabled Annuitant, and Employee Mortality headcount weighted tables were used for males and females. Mortality rates were adjusted for future mortality improvements using projection scale MP-2017 from 2006.

ARKANSAS TEACHER RETIREMENT SYSTEM
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2022
(UNAUDITED)

Schedule 4

	For the Year Ended June 30,				
	2022	2021	2020	2019	2018
Total Assets	$ 20,501,229,577	$ 22,005,819,561	$ 17,272,901,062	$ 18,281,516,802	$ 18,088,381,003
Total Deferred Outflows of Resources	685,899		1,310,404		
Total Liabilities	820,378,162	537,941,055	371,416,146	539,895,029	595,753,263
Total Deferred Inflows of Resources	2,070,062		719,096		
Net Position Restricted for Pension Benefits	19,679,467,252		16,902,076,224	17,741,621,773	17,492,627,740
Total Additions (Losses)	(398,007,308)	5,891,652,600	433,570,198	1,471,135,154	2,387,349,568
Total Deductions	1,391,298,311	1,324,955,953	1,273,115,747	1,222,141,121	1,179,530,072