



**Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

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INDEPENDENT AUDITOR'S REPORT

Executive Committee and Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinions: General Operating Fund, Capital Reserve Fund and Reserve Fund of the Arkansas Municipal League

We have audited the accompanying modified cash basis financial statements of the **General Operating Fund**, the **Capital Reserve Fund** and the **Reserve Fund** of the **Arkansas Municipal League (the League)**, which consist of the statements of assets, liabilities and net position – modified cash basis as of December 31, 2021 and 2020, and the statements of revenues, expenditures and changes in net position – modified cash basis for the years then ended, and the related notes to those financial statements.

In our opinion, the financial statements present fairly, in all material respects, the respective modified cash basis financial position of the **General Operating Fund**, the **Capital Reserve Fund** and the **Reserve Fund** of the **Arkansas Municipal League** as of December 31, 2021 and 2020, and the respective changes in each fund's modified cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1 to the financial statements.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the League and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Other

The financial statements referred to above include only those balances and transactions that are directly attributable to the General Operating Fund, the Capital Reserve Fund and the Reserve Fund of the League. They do not include any balances or transactions attributable to the benefit programs and certain other funds administered by the League, which are identified in Note 1 to the financial statements. The League issues separate financial statements for each of the benefit programs but does not issue complete reporting entity financial statements that present the League and all of the benefit programs or other funds under its administration. Because of this omission of the benefit programs and certain other funds, the accompanying financial statements do not purport to, and do not, present fairly the modified cash basis financial position of the complete reporting entity of the League as of December 31, 2021 and 2020, or the respective changes in its modified cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1 to the financial statements.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The accompanying financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are 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 the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 League's ability to continue as a going concern for twelve months beyond the financial statement date, including currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits 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 opinions. 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 auditing standards generally accepted in the United States of America (U.S. GAAS) 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 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 reported in the financial statements and information disclosed in the notes thereto.
- 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 League'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.

Auditor's Responsibilities for the Audits of the Financial Statements *(Continued)*

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the League'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 audits, significant audit findings and certain internal control-related matters that we identified during the audits.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive script, and "PLC" is written in a more formal, slightly stylized font.

Little Rock, Arkansas
May 18, 2022

Financial Statements

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Statements of Assets, Liabilities and Net Position – Modified Cash Basis
December 31, 2021 and 2020

	2021				2020			
	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 3,172,487	\$ 1,192,509	\$ 668,314	\$ 5,033,310	\$ 1,971,306	\$ 3,047,865	\$ 1,717,934	\$ 6,737,105
Investments	-	6,255,389	59,827,609	66,082,998	-	6,440,098	57,364,183	63,804,281
Total Current Assets	<u>3,172,487</u>	<u>7,447,898</u>	<u>60,495,923</u>	<u>71,116,308</u>	<u>1,971,306</u>	<u>9,487,963</u>	<u>59,082,117</u>	<u>70,541,386</u>
Property and Equipment, Net	<u>9,592,993</u>	<u>-</u>	<u>-</u>	<u>9,592,993</u>	<u>6,968,220</u>	<u>-</u>	<u>-</u>	<u>6,968,220</u>
TOTAL ASSETS	<u>\$ 12,765,480</u>	<u>\$ 7,447,898</u>	<u>\$ 60,495,923</u>	<u>\$ 80,709,301</u>	<u>\$ 8,939,526</u>	<u>\$ 9,487,963</u>	<u>\$ 59,082,117</u>	<u>\$ 77,509,606</u>
LIABILITIES AND NET POSITION								
Current Liabilities								
Due to other programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,248	\$ 12,248
Unearned annual fees and dues	<u>317,772</u>	<u>-</u>	<u>-</u>	<u>317,772</u>	<u>301,112</u>	<u>-</u>	<u>-</u>	<u>301,112</u>
Total Liabilities	<u>317,772</u>	<u>-</u>	<u>-</u>	<u>317,772</u>	<u>301,112</u>	<u>-</u>	<u>12,248</u>	<u>313,360</u>
Net Position								
Net investment in capital assets	9,592,993	-	-	9,592,993	6,968,220	-	-	6,968,220
Unrestricted	<u>2,854,715</u>	<u>7,447,898</u>	<u>60,495,923</u>	<u>70,798,536</u>	<u>1,670,195</u>	<u>9,487,963</u>	<u>59,069,869</u>	<u>70,228,026</u>
Total Net Position	<u>12,447,708</u>	<u>7,447,898</u>	<u>60,495,923</u>	<u>80,391,529</u>	<u>8,638,414</u>	<u>9,487,963</u>	<u>59,069,869</u>	<u>77,196,246</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,765,480</u>	<u>\$ 7,447,898</u>	<u>\$ 60,495,923</u>	<u>\$ 80,709,301</u>	<u>\$ 8,939,526</u>	<u>\$ 9,487,963</u>	<u>\$ 59,082,117</u>	<u>\$ 77,509,606</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis
Years Ended December 31, 2021 and 2020

	2021				2020			
	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total
OPERATING REVENUES								
Service and reserve fees	\$ 7,225,846	\$ -	\$ 3,607,612	\$ 10,833,458	\$ 6,323,387	\$ -	\$ 3,353,971	\$ 9,677,358
Conventions and conferences	225,265	-	-	225,265	106,797	-	-	106,797
Dues	228,987	-	-	228,987	245,906	-	-	245,906
Publications	75,510	-	-	75,510	85,654	-	-	85,654
Accidental death and dismemberment annual fees	232,380	-	-	232,380	220,360	-	-	220,360
Other	181,654	34,000	-	215,654	166,209	-	-	166,209
Total Operating Revenues	8,169,642	34,000	3,607,612	11,811,254	7,148,313	-	3,353,971	10,502,284
OPERATING EXPENDITURES								
Salaries and employee benefits, net	4,161,356	-	-	4,161,356	3,932,481	-	-	3,932,481
Conventions and conferences	279,879	-	-	279,879	433,980	-	-	433,980
Service fees	-	395,098	2,754,269	3,149,367	-	338,038	2,334,906	2,672,944
Publications	223,842	-	-	223,842	378,953	-	-	378,953
Public education and communication	-	-	-	-	-	86,639	-	86,639
Accidental death and dismemberment premiums	104,724	-	-	104,724	100,044	-	-	100,044
Occupancy	543,505	-	-	543,505	537,766	-	-	537,766
Equipment repairs and maintenance	47,618	2,646	-	50,264	63,543	5,254	-	68,797
Supplies	108,330	35,440	-	143,770	120,050	37,574	-	157,624
Postage	124,710	-	-	124,710	132,515	-	-	132,515
Dues	155,083	-	-	155,083	171,619	-	-	171,619
Depreciation and amortization	795,904	-	-	795,904	769,550	-	-	769,550
Professional services	374,240	-	-	374,240	307,471	-	-	307,471
Travel	43,771	-	-	43,771	59,721	-	-	59,721
Other	39,808	144,098	-	183,906	37,314	105,729	-	143,043
Total Operating Expenditures	7,002,770	577,282	2,754,269	10,334,321	7,045,007	573,234	2,334,906	9,953,147
Operating Income (Loss) before Subsidies and Transfers	1,166,872	(543,282)	853,343	1,476,933	103,306	(573,234)	1,019,065	549,137

See accompanying notes to financial statements.

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Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis (Continued)
Years Ended December 31, 2021 and 2020

	2021				2020			
	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total
SUBSIDIES AND TRANSFERS								
Operating subsidies - reinsurance	\$ -	\$ -	\$ (2,944,730)	\$ (2,944,730)	\$ -	\$ -	\$ (1,834,916)	\$ (1,834,916)
Operating subsidies - personnel costs	861,035	-	(1,306,018)	(444,983)	798,361	-	(1,219,755)	(421,394)
Operating subsidies - excess claims	-	-	-	-	-	-	(392,626)	(392,626)
Interfund transfer - excess funds	(1,670,194)	1,670,194	-	-	(1,773,694)	1,773,694	-	-
Interfund transfer - property and equipment purchases	3,460,599	(3,460,599)	-	-	1,508,696	(1,508,696)	-	-
Total Subsidies and Transfers, Net	<u>2,651,440</u>	<u>(1,790,405)</u>	<u>(4,250,748)</u>	<u>(3,389,713)</u>	<u>533,363</u>	<u>264,998</u>	<u>(3,447,297)</u>	<u>(2,648,936)</u>
Net Operating Income (Loss)	<u>3,818,312</u>	<u>(2,333,687)</u>	<u>(3,397,405)</u>	<u>(1,912,780)</u>	<u>636,669</u>	<u>(308,236)</u>	<u>(2,428,232)</u>	<u>(2,099,799)</u>
NONOPERATING REVENUES (EXPENDITURES), NET								
Investment income, net	1,479	335,345	5,860,271	6,197,095	5,829	534,893	4,415,879	4,956,601
Investment fees and bank charges	(10,497)	(41,723)	(1,036,812)	(1,089,032)	(9,257)	(25,728)	(608,431)	(643,416)
Total Nonoperating Revenues (Expenditures), Net	<u>(9,018)</u>	<u>293,622</u>	<u>4,823,459</u>	<u>5,108,063</u>	<u>(3,428)</u>	<u>509,165</u>	<u>3,807,448</u>	<u>4,313,185</u>
INCREASE (DECREASE) IN NET POSITION	3,809,294	(2,040,065)	1,426,054	3,195,283	633,241	200,929	1,379,216	2,213,386
NET POSITION, BEGINNING OF YEAR	8,638,414	9,487,963	59,069,869	77,196,246	8,005,173	9,287,034	57,690,653	74,982,860
NET POSITION, END OF YEAR	<u>\$ 12,447,708</u>	<u>\$ 7,447,898</u>	<u>\$ 60,495,923</u>	<u>\$ 80,391,529</u>	<u>\$ 8,638,414</u>	<u>\$ 9,487,963</u>	<u>\$ 59,069,869</u>	<u>\$ 77,196,246</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arkansas Municipal League (the League) is a voluntary group of Arkansas cities and towns, founded in 1934. The League provides a variety of services and benefits to its members, including legislative advocacy, risk management and benefit programs, training and educational opportunities and informational publications. During the years ended December 31, 2021 and 2020, the number of cities and towns participating in the program totaled 499 and 498, respectively. Oversight of the League is the responsibility of a 30-member Executive Committee (the Executive Committee).

The League provides administrative services, including facilities, personnel, supplies, equipment, investment management and other services to each of the following public entity risk pools (collectively, “the Benefit Programs”):

- Municipal Legal Defense Program (Legal Defense Program)
- Municipal Property Program (Property Program)
- Municipal Vehicle Program (Vehicle Program)
- Municipal Health Benefit Program (Health Benefit Program)
- Municipal Health Benefit Program – Life Benefit Account (Life Benefit Account)
- Municipal League Workers’ Compensation Program (Workers’ Compensation Program)
- Firefighters Supplemental Income Protection Plan (Firefighters Plan)

Due to the nature and significance of the League’s relationship with the Benefit Programs, they meet the criteria for inclusion in the financial reporting entity of the League, as set forth in governmental accounting standards. The balances and activities attributable to the Benefit Programs are not included in these financial statements, as management has elected to present only the balances and activities of the League’s General Operating Fund, Capital Reserve Fund and Reserve Fund (collectively, “the League Funds”) rather than the complete financial reporting entity. The following summarizes the aggregate totals of assets, liabilities, net position, revenues and expenditures of the Benefit Programs as of and for the years ended December 31, 2021 and 2020 (amounts in millions):

	<u>2021</u>	<u>2020</u>
Total assets	\$ 123.7	\$ 125.0
Total liabilities	\$ 37.0	\$ 36.1
Total net position	\$ 86.7	\$ 88.9
Total revenues ⁽¹⁾	\$ 119.6	\$ 114.5
Total expenditures ⁽¹⁾	\$ 121.8	\$ 105.7

⁽¹⁾ Includes transfers and subsidies

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Notes to Financial Statements

December 31, 2021 and 2020

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

Information about the Benefit Programs or copies of their separate audited financial statements may be obtained by contacting the Arkansas Municipal League, 301 West 2nd Street, North Little Rock, Arkansas 72114.

The League also serves as the administrator of the Arkansas Local Government Pension Management Trust (PMT) and the Municipal Other Post-Employment Benefits Trust (MOPEBT). Total assets under League administration were \$257.2 million and \$234.2 million at December 31, 2021 and 2020, respectively. Assets of the PMT and MOPEBT are held in trust for their member entities and are not included in the financial statements of the League Funds.

The following funds are included in these financial statements:

- The General Operating Fund was established to pay costs incurred in providing services to members of the League and in the administration of the Benefit Programs, the PMT and the MOPEBT. Resources accumulated to pay these costs are generally derived from annual dues paid by members, sales of publications, conference and convention registration fees and service fees paid by the Benefit Programs. In addition, accidental death and dismemberment insurance is an optional benefit made available to elected officials and municipal department heads through a group insurance policy with a commercial insurer. Annual fees collected from members to participate in this benefit and premiums paid to the commercial insurer are accounted for in the General Operating Fund. All property and equipment utilized in providing member services or in administering the League Funds, Benefit Programs, PMT and MOPEBT, as well as related depreciation of that equipment, are reported in the General Operating Fund.
- The Capital Reserve Fund was established in 1981 to accumulate resources for acquisitions of property and equipment to be used in the League's operations, in the operations of the Benefit Programs and for certain other purposes, as approved by the Executive Committee. Annually, management of the League transfers any excess funds in the General Operating Fund not needed to cover current operating expenditures to the Capital Reserve Fund.
- The Reserve Fund was established in 1984 to provide supplemental aggregate reserves to support and pay claims of the Benefit Programs in the event that resources accumulated in those programs are not sufficient to cover outstanding claims. The Reserve Fund may also be used to pay for certain operating costs and other purposes, at the discretion of the Executive Committee.

Measurement Focus and Basis of Accounting

The League Funds are operated as enterprise funds. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where

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December 31, 2021 and 2020

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

the intent is that the costs of providing goods or services are financed or recovered primarily through user charges.

The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the League.

Transactions of the League are recorded in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, assets, liabilities, revenues and expenditures are recognized when cash is received or paid. Therefore, these financial statements do not report amounts receivable for annual fees due from participating municipalities or investment income earned but not received. In addition, these financial statements do not reflect liabilities or expenditures for goods or services received before year end for which payment has not yet been made. Investments are reported at cost, rather than fair value. Generally, non-cash transactions are not reported. However, there are certain exceptions related to depreciation and amortization of the League's property and equipment, and increases and decreases in investments resulting from allocations of income and expenditures of the pooled investment funds managed by the League, as more fully disclosed throughout the notes to the financial statements.

Basis of Presentation

Net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable. As of December 31, 2021 and 2020, there were no restrictions on the net position of the League.

Operating revenues and expenditures are distinguished from nonoperating revenues and expenditures for purposes of presentation on the statements of revenues, expenditures and changes in net position – modified cash basis. Operating revenues consist of cash receipts derived from providing member services and administering the Benefit Programs. Operating expenditures include disbursements for costs incurred in providing member services and administering the Benefit Programs and depreciation and amortization expense on property and equipment used by the League and the Benefit Programs. Transfers include operating transfers between the General Operating Fund and Capital Reserve Fund, as well as operating subsidies to various Benefit Programs to cover a portion of personnel and certain other costs incurred in administering these programs. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to investing activities.

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December 31, 2021 and 2020

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts maintained with financial institutions, undeposited receipts and equity in a pooled cash management account, which is a demand deposit account maintained with a financial institution by the League for the benefit of certain funds and Benefit Programs managed by the League.

Investments

To maximize investment opportunities and returns, the League pools the resources of the League Funds and certain Benefit Programs in several internal investment pools, each of which has a different asset mix and investment strategy. An internal investment pool is an arrangement that comingles the moneys of more than one fund within one legal entity. The underlying investments that comprise the internal investment pools may include marketable equity securities, obligations of the U.S. government, obligations of U.S. government agencies and government-sponsored entities, mutual funds, exchange traded funds, alternative investments and investments in certain other debt securities, as approved by the Executive Committee.

Investments include ownership interests in these internal investment pools managed by the League (see Note 2 and Note 3). While the League Funds own participating interests in the pools, the League Funds do not own the underlying securities. Amounts invested by the League Funds in the internal investment pools are generally reported at cost on the statements of assets, liabilities and net position – modified cash basis. Net investment income (or loss) earned by the pools and certain investment fees are allocated to the League Funds and other pool participants on a pro-rata basis and are recorded as increases or decreases in the cost of the investment.

In addition, the Reserve Fund invests in equity securities, debt securities and money market mutual funds that are held by the League specifically for the Reserve Fund, which are also reported at cost. Purchases and sales of these investments are recorded when the transaction settles, and investment income is recorded when cash is received.

Property and Equipment

Management of the League has established a policy to capitalize property and equipment purchased with resources accumulated in the Capital Reserve Fund with a cost greater than or equal to \$3,000 and a useful life greater than or equal to three years. Property and equipment are reported at historical cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Expenditures related to repairs and maintenance that do not add value or extend the useful life of an asset are not capitalized and are reported as expenditures when paid.

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December 31, 2021 and 2020

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dues

Each participating city or town must pay annual dues, which are based on the population as shown by the latest census count, the number of optional Benefit Programs in which the city or town participates and other factors as determined by the Executive Committee. Limited service memberships are available to counties, school districts, planning and development districts and certain other entities. Dues received in advance of the membership period to which they apply are included in unearned annual fees and dues on the statements of assets, liabilities and net position – modified cash basis.

Accidental Death and Dismemberment Annual Fees

Cities and towns that elect to participate in the optional accidental death and dismemberment benefit coverage program for elected officials and municipal department heads offered through the General Operating Fund pay annual fees. Rates are established by the Executive Committee. Annual fees received in advance of the coverage period to which they apply are included in unearned annual fees and dues in the statements of assets, liabilities and net position – modified cash basis.

Service and Reserve Fees

The General Operating Fund receives a service fee from the Capital Reserve Fund, the Reserve Fund and each of the Benefit Programs to cover administrative and operating costs. The service fee is generally calculated as 3% of total cash and the fair value of investments as of specific dates; however, the service fee applicable to the Workers' Compensation Program is 2%.

The Reserve Fund receives a reserve fee from each of the Benefit Programs. The reserve fee is generally calculated as 10% of annual fees collected; however, the Health Benefit Program reserve fee is determined based on the number of covered employees (\$4.00 per covered employee per month), and the Life Benefit Account reserve fee is calculated as 10% of investment income and transfers from the Health Benefit Program.

Tax Status

The League is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

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NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

At December 31, cash and cash equivalents include the following:

	2021			
	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total
Demand deposit accounts	\$ 417,125	\$ 57,633	\$ -	\$ 474,758
Equity in pooled cash management account	2,741,182	1,130,388	645,436	4,517,006
Undeposited receipts	14,180	4,488	22,878	41,546
	<u>\$ 3,172,487</u>	<u>\$ 1,192,509</u>	<u>\$ 668,314</u>	<u>\$ 5,033,310</u>

	2020			
	General Operating Fund	Capital Reserve Fund	Reserve Fund	Total
Demand deposit accounts	\$ 506,573	\$ 99,133	\$ -	\$ 605,706
Equity in pooled cash management account	1,440,533	2,948,732	1,717,934	6,107,199
Undeposited receipts	24,200	-	-	24,200
	<u>\$ 1,971,306</u>	<u>\$ 3,047,865</u>	<u>\$ 1,717,934</u>	<u>\$ 6,737,105</u>

The League maintains demand deposit accounts and the pooled cash management account for the use of the League Funds and the Benefit Programs at several financial institutions. The aggregate balances of these accounts at any one financial institution are insured up to Federal Deposit Insurance Corporation (FDIC) limits, and the excess of the balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institutions and held in the name of the League. These collateral securities are maintained pursuant to the terms of collateral security custody agreements executed by the pledging financial institutions and the League and may not be released without the consent of the League.

Investments

The Executive Committee has created and appointed members of an investment subcommittee to establish investment guidelines, review and evaluate investment results, and make recommendations on investment matters pertaining to investing activities of the League Funds and the Benefit Programs. The Investment Policy Statement (the Policy), as amended, adopted by the League at the recommendation of the investment subcommittee, as amended, sets forth basic investment objectives and philosophies. The requirements of the Policy are applied to the investment portfolio managed by the League for the League Funds and certain Benefit Programs managed by the League.

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NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The Policy specifies that the primary investment objective is to earn the highest possible return consistent with prudent levels of risk. In general, the Policy sets forth limitations and guidelines on industry concentration and investment ratings. With respect to equity securities, no single equity security may exceed 10% of the aggregate fair value of all securities in the account in which that equity security is held. In addition, concentrations in any one economic sector are limited to 30% of the aggregate fair value of all securities in that account. With respect to debt securities, a minimum credit rating of A3/A- is generally required, with certain exceptions. With the exception of securities that are direct or guaranteed obligations of the U.S. government, concentrations with respect to any one issuer may not exceed 5% of the aggregate fair value of all securities in the account in which that debt security is held. Alternative investments are limited to 15% of the fair value of all the League's investments.

The pages that follow provide detailed information about investments held by the League Funds as of December 31, 2021 and 2020, including estimated fair values. Fair values of the underlying securities are generally determined by independent pricing sources. The fair values of equity securities are based on unadjusted quoted prices for those securities in the active markets on which they are traded. The fair values of debt securities are estimated using pricing models that consider various assumptions about interest rates, timing of cash flows and other market-related factors. The fair values of alternative investments are estimated based on the capital investment made by the League into those funds, adjusted for gains and losses and other highly subjective factors.

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investment Detail

At December 31, the investments of the League Funds are as follows:

	Capital Reserve Fund			
	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Internal Investment Pools				
Equity Securities:				
Russell 3000 Account	\$ 1,304,286	\$ 5,312,591	\$ 1,304,286	\$ 4,225,126
Large Cap Growth Account	1,003,748	1,568,826	990,834	1,233,597
Wellington Management Accounts:				
Large Growth	760,687	1,179,189	797,347	1,230,498
Enduring Assets	774,446	929,122	744,208	815,075
International Quality Growth	464,893	711,271	460,408	647,035
Stephens Opportunistic Account	108,502	111,374	150,095	156,468
Debt Securities:				
Passive Bond Market Account	531,499	629,102	531,499	664,237
Arkansas Bond Account	311,198	311,925	251,918	256,286
Stephens Opportunistic Account	715,604	734,540	706,042	736,018
Alternative Investments:				
CapRocq Core Real Estate				
Fund L.P.	44,115	44,115	95,109	95,109
KKR Lending Partners, L.P.	16,745	16,745	13,887	13,887
Owl Rock Capital Corporation	219,666	205,005	219,666	183,288
Master limited partnerships	-	-	174,799	111,065
	<u>\$ 6,255,389</u>	<u>\$ 11,753,805</u>	<u>\$ 6,440,098</u>	<u>\$ 10,367,689</u>

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investment Detail (Continued)

	Reserve Fund			
	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Internal Investment Pools				
Equity Securities:				
Russell 3000 Account	\$ 5,402,125	\$ 22,003,827	\$ 5,402,125	\$ 17,499,738
Large Cap Growth Account	5,148,910	8,047,586	5,082,669	6,327,965
Wellington Management Accounts:				
Large Growth	7,424,108	11,508,586	7,781,906	12,009,350
Enduring Assets	7,558,397	9,067,988	7,263,275	7,954,922
International Quality Growth	4,537,237	6,941,824	4,493,468	6,314,896
Debt Securities:				
Passive Bond Market Account	7,352,666	8,702,892	7,352,666	9,188,944
Arkansas Bond Account	3,035,814	3,044,308	2,457,259	2,501,284
Alternative Investments:				
CapRocq Core Real Estate Fund L.P.	224,870	224,870	484,804	484,804
KKR Lending Partners, L.P.	85,353	85,353	70,786	70,786
Owl Rock Capital Corporation	1,119,719	1,044,986	1,119,719	934,288
Master limited partnerships	-	-	891,016	566,136
Small Cap Equity Account				
Equity securities	12,917,857	20,813,350	10,155,688	18,182,137
Money market mutual fund	502,909	502,909	486,332	486,332
Crews Fixed Income Account				
Municipal bonds	3,148,908	3,228,232	2,871,773	2,853,475
Corporate bonds	843,625	852,285	641,625	652,659
Collateralized mortgage obligations	389,712	394,208	394,522	396,116
Money market mutual fund	135,399	135,399	414,550	414,550
	<u>\$ 59,827,609</u>	<u>\$ 96,598,603</u>	<u>\$ 57,364,183</u>	<u>\$ 86,838,382</u>

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Small Cap Equity Account

The Small Cap Equity Account is a separate investment account maintained for investment of Reserve Fund assets and is managed by an independent investment firm. The underlying securities are held by an agent of the League in the name of the League and consist of domestic and international equity securities and a money market mutual fund. The money market mutual fund is an open-ended mutual fund that invests primarily in U.S. government debt securities and has a Standard & Poor's/Moody's credit rating of AAAm/Aaa-mf.

Crews Fixed Income Account

The Crews Fixed Income is a separate investment account maintained for investment of Reserve Fund assets and is managed by an independent investment firm. The objective of the Crews Fixed Income Account is to find unique bond opportunities that offer enhanced total rates of return through active trading. The underlying securities are held by an agent of the League in the name of the League and consist of collateralized mortgage obligations, municipal bonds and corporate bonds and a money market mutual fund. The money market mutual fund is an open-ended mutual fund that invests primarily in U.S. government debt securities and has a Standard & Poor's/Moody's credit rating of AAAm/Aaa.

Credit ratings and weighted average lives of fixed income securities held in the Crews Fixed Income Account are as follows at December 31:

	2021				
	Cost ⁽¹⁾	Fair Value	Weighted Average Life (Years)	Credit Rating	
Municipal bonds	\$ 3,148,908	\$ 3,228,232	13.57	Aa2/A to B3/BB+	⁽²⁾
Corporate bonds	843,625	852,285	17.67	Baa2	⁽³⁾
Collateralized mortgage obligations	389,712	394,268	29.02	A3/A- to B3/BB+	
	<u>\$ 4,382,245</u>	<u>\$ 4,474,785</u>			

(Continued)

Arkansas Municipal League
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Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Crews Fixed Income Account (Continued)

	2020			
	Cost ⁽¹⁾	Fair Value	Weighted Average Life (Years)	Credit Rating
Municipal bonds	\$ 2,871,773	\$ 2,853,475	14.41	Ba1/A- to B3/BB+ ⁽⁴⁾
Corporate bonds	641,625	652,659	22.21	Baa2 ⁽⁵⁾
Collateralized mortgage obligations	394,522	396,116	30.02	A3/A- to Baa3/BBB+
	<u>\$ 3,907,920</u>	<u>\$ 3,902,250</u>		

⁽¹⁾ Historical cost. Does not include amortization/accretion of premiums/discounts.

⁽²⁾ Investments totaling \$1,834,490 at cost and \$1,870,037 at fair value are not rated. Ratings presented are for the remaining investments totaling \$1,314,418 at cost and \$1,358,195 at fair value.

⁽³⁾ Investments totaling \$394,000 at cost and \$398,562 fair value are not rated. Ratings presented are for the remaining investments totaling \$449,625 at cost and \$453,723 at fair value.

⁽⁴⁾ Investments totaling \$1,735,490 at cost and \$1,712,477 at fair value are not rated. Ratings presented are for the remaining investments totaling \$1,136,283 at cost and \$1,140,998 at fair value.

⁽⁵⁾ Investments totaling \$192,000 at cost and fair value are not rated. Ratings presented are for the remaining investments totaling \$449,625 at cost and \$460,659 at fair value.

NOTE 3: INTERNAL INVESTMENT POOLS

The following provides a brief description of the investment objectives of each pool, the types of underlying securities held in each pool and the ownership interests in each pool attributable to the League Funds and the Benefit Programs. All of the investments that comprise the internal investment pools are registered in the name of the League and are held by an agent of the League.

Russell 3000 Account

Assets in the Russell 3000 Account are invested in common trust fund units. The assets of the common trust fund are invested in an underlying portfolio of equity securities that is managed by an independent investment management firm, with an investment strategy designed to match characteristics and returns of the Russell 3000 Equity Index.

Arkansas Municipal League
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

The cost and fair values of investments in the Russell 3000 Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Common trust fund units	<u>\$ 10,704,188</u>	<u>\$ 43,600,080</u>	<u>\$ 10,704,188</u>	<u>\$ 34,675,331</u>

At December 31, the cost and fair value attributable to each participant's interest in the Russell 3000 Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 1,304,286	\$ 5,312,591	\$ 1,304,286	\$ 4,225,126
Reserve Fund	5,402,125	22,003,827	5,402,125	17,499,738
Vehicle Program	1,516,075	6,175,248	1,516,075	4,911,201
Property Program	649,993	2,647,536	649,993	2,105,597
Legal Defense Program	1,284,573	5,232,296	1,284,573	4,161,268
Life Benefit Account	208,180	847,955	208,180	674,382
Firefighters Plan	338,956	1,380,627	338,956	1,098,019
	<u>\$ 10,704,188</u>	<u>\$ 43,600,080</u>	<u>\$ 10,704,188</u>	<u>\$ 34,675,331</u>

Large Cap Growth Account

The Large Cap Growth Account was established to invest in domestic and international equity securities, as well as equity and international mutual funds and exchange-traded funds (ETFs). The underlying portfolio is managed by an independent investment management firm, with an investment strategy designed to match characteristics and returns of the Russell 1000 Index. Funds may also be invested in a money market mutual fund and a money market account. The money market mutual fund is an open-ended mutual fund that invests primarily in U.S. government debt securities and has a Standard & Poor's/Moody's credit rating of AAAm/Aaa-mf.

The cost and fair values of investments in the Large Cap Growth Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity securities	\$ 10,276,572	\$ 16,275,944	\$ 10,104,981	\$ 12,682,361
Money market mutual fund	380,094	380,094	414,586	414,586
	<u>\$ 10,656,666</u>	<u>\$ 16,656,038</u>	<u>\$ 10,519,567</u>	<u>\$ 13,096,947</u>

Arkansas Municipal League
General Operating Fund
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Large Cap Growth Account (Continued)

At December 31, the cost and fair value attributable to each participant's interest in the Large Cap Growth Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 1,003,748	\$ 1,568,826	\$ 990,834	\$ 1,233,597
Reserve Fund	5,148,910	8,047,586	5,082,669	6,327,965
Vehicle Program	2,304,589	3,602,001	2,274,940	2,832,319
Property Program	538,090	841,019	531,168	661,308
Legal Defense Program	1,185,296	1,852,580	1,170,047	1,456,718
Life Benefit Account	222,569	347,869	219,706	273,535
Firefighters Plan	253,464	396,157	250,203	311,505
	<u>\$ 10,656,666</u>	<u>\$ 16,656,038</u>	<u>\$ 10,519,567</u>	<u>\$ 13,096,947</u>

Wellington Large Growth Account

The objective of the Wellington Large Growth Account is to provide long-term total returns in excess of the Russell 1000 Growth Index by investing in stocks of successful domestic and international growth companies. Funds that are not invested in equity securities are invested in a money market mutual fund. The money market mutual fund is an open-ended mutual fund that invests primarily in U.S. government debt securities and has a Standard & Poor's/Moody's credit rating of AAAM/Aaa-mf.

The cost and fair values of investments in the Wellington Large Growth Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity securities	\$ 14,574,876	\$ 22,728,270	\$ 15,521,289	\$ 23,960,072
Money market mutual fund	245,056	245,056	12,875	12,875
	<u>\$ 14,819,932</u>	<u>\$ 22,973,326</u>	<u>\$ 15,534,164</u>	<u>\$ 23,972,947</u>

Arkansas Municipal League
General Operating Fund
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Wellington Large Growth Account (Continued)

At December 31, the cost and fair value attributable to each participant's interest in the Wellington Large Growth Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 760,687	\$ 1,179,189	\$ 797,347	\$ 1,230,498
Reserve Fund	7,424,108	11,508,586	7,781,906	12,009,350
Vehicle Program	4,252,610	6,592,244	4,457,561	6,879,087
Property Program	502,965	779,678	527,205	813,604
Legal Defense Program	1,397,048	2,165,654	1,464,377	2,259,886
Life Benefit Account	315,033	488,352	330,215	509,602
Firefighters Plan	167,481	259,623	175,553	270,920
	<u>\$ 14,819,932</u>	<u>\$ 22,973,326</u>	<u>\$ 15,534,164</u>	<u>\$ 23,972,947</u>

Wellington Enduring Assets Account

Assets in the Wellington Enduring Assets Account are invested in common trust fund units. The assets of the common trust fund are invested in an underlying portfolio of equity securities that is managed by an independent investment management firm, with an investment strategy designed to invest in companies with long-lived physical assets that possess an advantaged competitive position and generate earnings with low levels of volatility to deliver attractive risk-adjusted returns.

The cost and fair values of investments in the Wellington Enduring Assets Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Common trust fund units	<u>\$ 15,087,999</u>	<u>\$ 18,101,431</u>	<u>\$ 14,498,880</u>	<u>\$ 15,879,539</u>

Arkansas Municipal League
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Wellington Enduring Assets Account (Continued)

At December 31, the cost and fair value attributable to each participant's interest in the Wellington Enduring Assets Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 774,446	\$ 929,122	\$ 744,208	\$ 815,075
Reserve Fund	7,558,397	9,067,988	7,263,275	7,954,922
Vehicle Program	4,329,533	5,194,243	4,160,484	4,556,667
Property Program	512,063	614,334	492,069	538,927
Legal Defense Program	1,422,318	1,706,389	1,366,783	1,496,935
Life Benefit Account	320,731	384,789	308,208	337,557
Firefighters Plan	170,511	204,566	163,853	179,456
	<u>\$ 15,087,999</u>	<u>\$ 18,101,431</u>	<u>\$ 14,498,880</u>	<u>\$ 15,879,539</u>

Wellington International Quality Growth Account

Assets in the Wellington International Quality Growth Account are invested in common trust fund units. The assets of the common trust fund are invested in an underlying portfolio of international equity securities that is managed by an independent investment management firm, with an investment strategy designed to provide long-term total returns in excess of the MSCI AC World ex US Growth Index by investing in high quality growth companies which trade at a discount relative to the market.

The cost and fair values of investments in the Wellington International Quality Growth Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Common trust fund units	<u>\$ 9,057,189</u>	<u>\$ 13,857,201</u>	<u>\$ 8,969,816</u>	<u>\$ 12,605,735</u>

Arkansas Municipal League
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NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Wellington International Quality Growth Account (Continued)

At December 31, the cost and fair value attributable to each participant's interest in the Wellington International Quality Growth Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 464,893	\$ 711,271	\$ 460,408	\$ 647,035
Reserve Fund	4,537,237	6,941,824	4,493,468	6,314,896
Vehicle Program	2,598,979	3,976,353	2,573,908	3,617,242
Property Program	307,387	470,291	304,421	427,819
Legal Defense Program	853,805	1,306,293	845,568	1,188,320
Life Benefit Account	192,532	294,568	190,675	267,965
Firefighters Plan	102,356	156,601	101,368	142,458
	<u>\$ 9,057,189</u>	<u>\$ 13,857,201</u>	<u>\$ 8,969,816</u>	<u>\$ 12,605,735</u>

Stephens Opportunistic Fund Account

The objective of the Stephens Opportunistic Fund Account is to fund investment opportunities in sectors and asset classes that offer high rates of return in the near term primarily through the use of ETFs, mutual funds and a money market mutual fund. Neither the ETFs nor the mutual funds are rated by a nationally recognized statistical rating organization. The money market mutual fund is an open-ended mutual fund that invests primarily in U.S. government debt securities and has a Standard & Poor's/Moody's credit rating of AAAm/Aaa-mf.

The cost and fair values of investments in the Stephens Opportunistic Fund Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
ETFs	\$ 848,330	\$ 855,567	\$ 6,128,175	\$ 6,410,552
Corporate bond	-	-	500,000	490,000
Mutual funds	2,100,000	2,176,973	1,350,000	1,438,939
Money market mutual fund	233,804	233,804	532,028	532,028
	<u>\$ 3,182,134</u>	<u>\$ 3,266,344</u>	<u>\$ 8,510,203</u>	<u>\$ 8,871,519</u>

Arkansas Municipal League
General Operating Fund
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Stephens Opportunistic Fund Account (Continued)

At December 31, the cost basis and fair value attributable to each participant's interest in the Stephens Opportunistic Fund Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 824,106	\$ 845,914	\$ 856,137	\$ 892,486
Vehicle Program	124,813	128,116	5,333,636	5,560,084
Property Program	732,969	752,366	749,760	781,593
Legal Defense Program	1,404,575	1,441,745	1,465,945	1,528,184
Firefighters Plan	95,671	98,203	104,725	109,172
	<u>\$ 3,182,134</u>	<u>\$ 3,266,344</u>	<u>\$ 8,510,203</u>	<u>\$ 8,871,519</u>

Passive Bond Market Account

Assets in the Passive Bond Market Account are invested solely in common trust fund units. The assets of the common trust fund are invested in an underlying portfolio of debt securities that is managed by an independent investment management firm, with an investment strategy designed to match the characteristics and returns of the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index. The common trust fund is not rated by any nationally recognized statistical rating organization; however, the underlying securities have an average Moody's credit rating of Aa3. The average effective maturity of the underlying securities held in the fund at December 31, 2021 is 4.41 years, compared to 4.46 years at December 31, 2020.

The cost and fair values of investments in the Passive Bond Market Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Common trust fund units	<u>\$ 14,221,822</u>	<u>\$ 16,833,483</u>	<u>\$ 11,221,822</u>	<u>\$ 14,024,395</u>

Arkansas Municipal League
General Operating Fund
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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Passive Bond Market Account (Continued)

At December 31, the cost and fair value attributable to each participant's interest in the Passive Bond Market Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 531,499	\$ 629,102	\$ 531,499	\$ 664,237
Vehicle Program	3,000,000	3,550,913	-	-
Reserve Fund	7,352,666	8,702,892	7,352,666	9,188,944
Property Program	265,749	314,551	265,749	332,118
Legal Defense Program	1,617,500	1,914,533	1,517,500	1,896,485
Life Benefit Account	1,454,408	1,721,492	1,554,408	1,942,611
	<u>\$ 14,221,822</u>	<u>\$ 16,833,483</u>	<u>\$ 11,221,822</u>	<u>\$ 14,024,395</u>

Arkansas Bond Account

The objective of the Arkansas Bond Account is to invest in fixed income securities issued by Arkansas municipalities and companies that maintain corporate headquarters in Arkansas. Funds may also be invested in a money market mutual fund. Corporate bonds consist of fixed-income investments in two Arkansas financial institutions. These fixed-income securities have Kroll credit ratings of BBB. The municipal bonds consist of fixed income investments in school districts and municipal entities in the state of Arkansas. Due to the nature of these offerings, these bonds are generally unrated. Those that are rated carry Standard & Poor's/Moody's credit ratings ranging from AAA/Aa2 to A/A1. The money market mutual fund is an open-ended mutual fund that invests primarily in U.S. government debt securities and has a Standard & Poor's/Moody's credit rating of AAAm/Aaa-mf.

The cost and fair values of investments in the Arkansas Bond Account are as follows at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Corporate bonds	\$ 2,373,714	\$ 2,402,397	\$ 2,373,715	\$ 2,412,003
Municipal bonds	3,689,781	3,676,969	2,333,224	2,385,272
Money market mutual fund	300,862	300,862	444,889	444,889
	<u>\$ 6,364,357</u>	<u>\$ 6,380,228</u>	<u>\$ 5,151,828</u>	<u>\$ 5,242,164</u>

Arkansas Municipal League
General Operating Fund
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Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Arkansas Bond Account (Continued)

At December 31, the cost basis and fair value attributable to each participant's interest in the Arkansas Bond Account are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 311,198	\$ 311,925	\$ 251,918	\$ 256,286
Reserve Fund	3,035,814	3,044,308	2,457,259	2,501,284
Vehicle Program	1,994,849	1,999,200	1,614,911	1,642,595
Property Program	205,800	206,244	166,604	169,456
Legal Defense Program	571,627	572,870	462,757	470,685
Life Benefit Account	176,562	177,004	142,924	145,431
Firefighters Plan	68,507	68,677	55,455	56,427
	<u>\$ 6,364,357</u>	<u>\$ 6,380,228</u>	<u>\$ 5,151,828</u>	<u>\$ 5,242,164</u>

Alternative Investments

The Policy authorizes the use of alternative investment strategies to enhance income and further diversify the investment portfolio managed by the League. The strategies include a limited partnership that provides direct lending to middle-market companies that do not have ready access to traditional financing; a limited partnership that invests in a diversified portfolio of real estate located throughout the midwest and southeast U.S.; a separately managed account that invests in publicly traded master limited partnerships, concentrating primarily on oil and gas sector companies (liquidated in 2021); and a specialty finance corporation focused on lending to U.S. middle-market companies. Due to their nature, alternative investments carry a higher degree of risk associated with the operations, personnel and processes of the manager, industry or asset concentrations, lack of liquidity and loss of investment. These investments are not rated by any nationally recognized statistical rating organization.

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Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: INTERNAL INVESTMENT POOLS (Continued)

Alternative Investments (Continued)

The cost and fair values of the alternative investments, as well as the League's total funding commitment and remaining amount to be funded, are as follows at December 31:

2021				
	Cost	Fair Value	Total Commitment	Remaining Commitment
CapRocq Core Real Estate Fund L.P.	\$ 592,905	\$ 592,905	\$ 2,500,000	\$ -
KKR Lending Partners, L.P.	225,046	225,046	5,000,000	445,853
Owl Rock Capital Corporation	2,952,312	2,755,268	2,500,000	-
	<u>\$ 3,770,263</u>	<u>\$ 3,573,219</u>	<u>\$ 10,000,000</u>	<u>\$ 445,853</u>
2020				
	Cost	Fair Value	Total Commitment	Remaining Commitment
CapRocq Core Real Estate Fund L.P.	\$ 1,278,263	\$ 1,278,263	\$ 2,500,000	\$ -
KKR Lending Partners, L.P.	186,639	186,639	5,000,000	576,238
Master limited partnerships	2,349,276	1,492,707	2,500,000	-
Owl Rock Capital Corporation	2,952,312	2,463,395	2,500,000	-
	<u>\$ 6,766,490</u>	<u>\$ 5,421,004</u>	<u>\$ 12,500,000</u>	<u>\$ 576,238</u>

At December 31, 2021 and 2020, the cost and fair value attributable to each participant's interest in the alternative investments are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Capital Reserve Fund	\$ 280,526	\$ 265,865	\$ 503,461	\$ 403,349
Reserve Fund	1,429,942	1,355,209	2,566,325	2,056,014
Vehicle Program	1,278,316	1,211,508	2,294,181	1,838,005
Property Program	527,362	499,801	946,461	758,258
Firefighters Plan	254,117	240,836	456,062	365,378
	<u>\$ 3,770,263</u>	<u>\$ 3,573,219</u>	<u>\$ 6,766,490</u>	<u>\$ 5,421,004</u>

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 4: PROPERTY AND EQUIPMENT, NET

A summary of property and equipment balances and changes therein for each of the years ended December 31, 2021 and 2020, are as follows:

	<u>2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>2021</u>
Building	\$ 10,910,540	\$ 125,477	\$ (127,225)	\$ 10,908,792
Vehicles	307,001	67,075	(77,120)	296,956
Furniture, fixtures and equipment	2,384,814	41,717	(550,303)	1,876,228
Computer software and equipment	2,111,998	104,438	(598,860)	1,617,576
Less accumulated depreciation and amortization	<u>(9,523,599)</u>	<u>(795,903)</u>	<u>1,347,585</u>	<u>(8,971,917)</u>
	6,190,754	(457,196)	(5,923)	5,727,635
Building construction in progress	64,490	-	(64,490)	-
Health Benefit Program software implementation	624,588	893,556	-	1,518,144
Land	<u>88,388</u>	<u>2,258,826</u>	<u>-</u>	<u>2,347,214</u>
	<u>\$ 6,968,220</u>	<u>\$ 2,695,186</u>	<u>\$ (70,413)</u>	<u>\$ 9,592,993</u>
	<u>2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>2020</u>
Building	\$ 10,602,169	\$ 326,773	\$ (18,402)	\$ 10,910,540
Vehicles	329,716	-	(22,715)	307,001
Furniture, fixtures and equipment	2,489,320	21,506	(126,012)	2,384,814
Computer software and equipment	1,646,908	471,338	(6,248)	2,111,998
Less accumulated depreciation and amortization	<u>(8,925,022)</u>	<u>(769,551)</u>	<u>170,974</u>	<u>(9,523,599)</u>
	6,143,091	50,066	(2,403)	6,190,754
Building construction in progress	-	64,490	-	64,490
Health Benefit Program software implementation	-	624,588	-	624,588
Land	<u>88,388</u>	<u>-</u>	<u>-</u>	<u>88,388</u>
	<u>\$ 6,231,479</u>	<u>\$ 739,144</u>	<u>\$ (2,403)</u>	<u>\$ 6,968,220</u>

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 5: SERVICE AND RESERVE FEE REVENUES

The following details the sources of service and reserve fee revenues:

	Service Fees		Reserve Fees	
	2021	2020	2021	2020
Capital Reserve Fund	\$ 395,098	\$ 338,038	\$ -	\$ -
Reserve Fund	2,754,269	2,334,906	-	-
Vehicle Program	1,033,316	944,666	850,384	772,194
Property Program	393,506	387,017	580,450	478,940
Legal Defense Program	560,947	486,189	413,658	401,749
Life Benefit Account	128,908	120,176	15,065	19,851
Workers' Compensation Program	1,033,592	946,850	1,351,993	1,281,747
Firefighters Plan	102,896	87,232	7,786	8,350
Health Benefit Program	809,751	667,374	388,276	391,140
MOPEBT	13,563	10,939	-	-
	<u>\$ 7,225,846</u>	<u>\$ 6,323,387</u>	<u>\$ 3,607,612</u>	<u>\$ 3,353,971</u>

NOTE 6: OTHER RELATED PARTY TRANSACTIONS

In addition to paying the service fee and reserve fee, certain Benefit Programs reimburse the General Operating Fund for a portion of personnel costs incurred related to their administration. For the years ended December 31, 2021 and 2020, these reimbursements, which are netted against salaries and employee benefits in the statements of revenues, expenditures and changes in net position – modified cash basis, are as follows:

	2021	2020
Vehicle Program	\$ 291,097	\$ 279,142
Legal Defense Program	1,954,087	1,829,000
Workers' Compensation Program	924,277	787,955
Health Benefit Program	1,940,787	1,839,904
	<u>\$ 5,110,248</u>	<u>\$ 4,736,001</u>

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 6: OTHER RELATED PARTY TRANSACTIONS (Continued)

A portion of personnel costs attributable to certain employees of the League who are directly involved in the administration of certain Benefit Programs are paid from the General Operating and Reserve Funds. The Benefit Programs do not reimburse the General Operating and Reserve Funds for these amounts, which are reported as operating subsidies – personnel costs in the statements of revenues, expenditures and changes in net position – modified cash basis and are as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Vehicle Program	\$ 95,982	\$ 92,473
Legal Defense Program	154,084	143,483
Workers' Compensation Program	76,013	71,455
Health Benefit Fund	<u>118,904</u>	<u>113,983</u>
	<u>\$ 444,983</u>	<u>\$ 421,394</u>

All or a portion of reinsurance premiums for the Vehicle and Property Programs may be paid by the Reserve Fund, at the discretion of the Executive Committee. These amounts are reported in the statements of revenues, expenditures and changes in net position – modified cash basis as an operating subsidy and are as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Vehicle Program	\$ 221,467	\$ 186,996
Property Program	<u>2,723,263</u>	<u>1,647,920</u>
	<u>\$ 2,944,730</u>	<u>\$ 1,834,916</u>

The Reserve Fund may also reimburse the Benefit Programs for amounts paid on individual claims in excess of specified thresholds, as approved by the Executive Committee. There were no such reimbursements paid during the year ended December 31, 2021. During the year ended December 31, 2020, the Reserve Fund reimbursed the following Benefit Programs for claims in excess of \$600,000:

	<u>2021</u>	<u>2020</u>
Workers' Compensation Program	\$ -	\$ 376,670
Health Benefit Program	<u>-</u>	<u>15,956</u>
	<u>\$ -</u>	<u>\$ 392,626</u>

Arkansas Municipal League
General Operating Fund
Capital Reserve Fund
Reserve Fund

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 6: OTHER RELATED PARTY TRANSACTIONS (Continued)

All amounts paid by the General Operating and Reserve Funds are subject to change annually at the discretion of the Executive Committee.

Certain employees of the League perform accounting, legal and other administrative duties for the League and its Benefit Programs. Personnel costs associated with these employees are paid by the General Operating Fund and are not reported in the financial statements of the respective Benefit Programs as management of the League believes such amounts are not readily determinable and would not be material to the Benefit Programs' financial statements. During the years ended December 31, 2021 and 2020, respectively, \$940,676 and \$873,301 were transferred to the General Operating Fund from the Reserve Fund to cover a portion of these personnel costs.

All investment advisory service fees are paid to Stephens, Inc. by the Reserve Fund. For the years ended December 31, 2021 and 2020, investment advisory fees totaled \$532,059 and \$280,360, respectively.

NOTE 7: RETIREMENT PLAN

Plan Description

Employees of the League that meet certain eligibility requirements participate in Arkansas Public Employees Retirement System (APERS), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Plan participants are fully vested in benefits provided under APERS upon reaching five years of service. Benefits, which are established and amended by state statute, are calculated on the basis of age, final average salary, years of service and a benefit factor. An annual stand-alone financial report for APERS may be obtained by mailing a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Although reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements, required disclosures related to the description of the plan, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the modified cash basis of accounting and are provided in the paragraphs that follow.

Arkansas Municipal League

General Operating Fund

Capital Reserve Fund

Reserve Fund

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 7: RETIREMENT PLAN (Continued)

Contributions

Plan participants hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and the League is required to contribute a percent of covered salary at an actuarially determined rate, as approved by the APERS Board of Trustees. The employer contribution rate was 15.32% for the period from January 1, 2020 through December 31, 2021. Contribution requirements are set forth in state statute. The League's total contributions for the Plan years ended June 30, 2021 and 2020 for all covered employees were \$1,033,245 and \$957,885, respectively, which were equal to required contributions. The League's proportionate share of contributions for employees directly involved in management and operation of the League Funds for the Plan years ended June 30, 2021 and 2020, were \$478,496 and \$438,520, respectively.

Net Pension Liability

The Plan determines the total collective net pension liability and the portion attributable to each participating employer on June 30 of each year (the actuarial valuation date and the measurement date). The League's proportionate share of the total collective net pension liability of all employers participating in APERS was \$2,596,707 and \$9,176,320 at June 30, 2021 and 2020, respectively. Management estimates that the portion of the liability attributable to employees directly involved in management and operation of the League Funds was \$1,205,535 and \$4,200,919, at June 30, 2021 and 2020, respectively.

NOTE 8: RISK MANAGEMENT

The League is exposed to various levels of loss related to personal and property injury; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illness of employees; and natural disasters. The League participates in the Benefit Programs it manages to address these risks. Annual fees for participation in the individual Benefit Programs for the years ended December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Vehicle Program	\$ 3,003	\$ 2,400
Property Program	30,236	24,102
Workers' Compensation Program	13,461	11,948
Health Benefit Fund	824,274	786,872
	<u>\$ 870,974</u>	<u>\$ 825,322</u>

Arkansas Municipal League

General Operating Fund

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Reserve Fund

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 9: RISKS AND UNCERTAINTIES

As of the date of the independent auditor's report, the COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the League Funds, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 10: SUBSEQUENT EVENTS

Market disruptions associated with the current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments; however, at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they may have on the League's investments.



**Arkansas Municipal League
Municipal Legal Defense Program**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

Arkansas Municipal League Municipal Legal Defense Program

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Municipal Legal Defense Program
North Little Rock, Arkansas

Program Administrator and Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinion

We have audited the modified cash basis financial statements of the **Municipal Legal Defense Program (the Program)**, which consist of the statements of assets, liabilities and net position – modified cash basis as of December 31, 2021 and 2020, and the statements of revenues, expenditures and changes in net position – modified cash basis for the years then ended, and the related notes to the financial statements. The Program is a benefit program managed by the Arkansas Municipal League (the League), subject to oversight by the members of the Board of Trustees of the Program.

In our opinion, the financial statements present fairly, in all material respects, the modified cash basis financial position of the Program as of December 31, 2021 and 2020, and the changes in its modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements, and for determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, when considered in the aggregate, that raise substantial doubt about the Program'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 U.S. GAAS 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Program'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 Program'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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Members of the Board of Trustees
Municipal Legal Defense Program

Program Administrator and Management
Arkansas Municipal League

Emphasis of Matter – Reporting Entity

As disclosed in Note 1 to the financial statements, these financial statements present only balances and transactions that are directly attributable to the Program and are not intended to present and do not present the financial position or results of operations of the League or any other program managed by the League.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a more upright, blocky style.

Little Rock, Arkansas
August 1, 2022

Financial Statements

Arkansas Municipal League Municipal Legal Defense Program

Statements of Assets, Liabilities and Net Position—Modified Cash Basis December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,191,033	\$ 2,595,392
Investments	<u>9,736,742</u>	<u>9,577,550</u>
TOTAL ASSETS	<u><u>\$ 11,927,775</u></u>	<u><u>\$ 12,172,942</u></u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Unearned annual fees	<u>\$ 1,719,247</u>	<u>\$ 1,995,589</u>
Net Position	<u>10,208,528</u>	<u>10,177,353</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 11,927,775</u></u>	<u><u>\$ 12,172,942</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League

Municipal Legal Defense Program

Statements of Revenues, Expenditures and Changes in Net Position—Modified Cash Basis
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Annual fees	\$ 4,260,128	\$ 4,140,793
Advance deposits	189,000	243,000
Total Operating Revenues	<u>4,449,128</u>	<u>4,383,793</u>
OPERATING EXPENDITURES		
Judgments and settlements, net	603,651	319,274
Service fee	560,947	486,189
Reserve fee	413,658	401,749
Personnel costs	2,108,171	1,972,483
Legal fees and court costs	1,066,332	993,035
Drug and alcohol program charges	172,797	151,342
Other	258,656	197,774
Total Operating Expenditures	<u>5,184,212</u>	<u>4,521,846</u>
Operating Loss before Subsidies	<u>(735,084)</u>	<u>(138,053)</u>
SUBSIDIES		
Operating subsidies - personnel costs	154,084	143,483
Total Subsidies	<u>154,084</u>	<u>143,483</u>
Net Operating (Loss) Income	<u>(581,000)</u>	<u>5,430</u>
NONOPERATING REVENUES (EXPENDITURES), NET		
Investment income	677,032	817,453
Investment fees	(64,857)	(40,060)
Total Nonoperating Revenues, Net	<u>612,175</u>	<u>777,393</u>
INCREASE IN NET POSITION	31,175	782,823
NET POSITION, BEGINNING OF YEAR	<u>10,177,353</u>	<u>9,394,530</u>
NET POSITION, END OF YEAR	<u><u>\$ 10,208,528</u></u>	<u><u>\$ 10,177,353</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League Municipal Legal Defense Program

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arkansas Municipal League (the League) is a voluntary group of Arkansas cities and towns, founded in 1934. The League provides a variety of services and benefits to its members, including legislative advocacy, risk management and benefit programs, training and educational opportunities and informational publications. The Municipal Legal Defense Program (the Program) was established by the League in 1979 as a risk sharing pool to provide defense against covered legal action brought upon participating municipalities, which include cities, towns and other eligible governmental entities. The terms and conditions of the Program are set forth in the Program Brochure. During each of the years ended December 31, 2021 and 2020, 469 municipalities were participating in the Program.

The Program provides legal defense services and covers certain expenses related to suits against municipal officials and employees and civil rights suits against the municipal governments of participating municipalities. The Program's liability is limited to 90% of any judgment for compensatory or actual damages, settlement amounts, court costs and attorney fees. The Program also pays extraordinary judgments for actual damages imposed on municipal officials, employees and the municipal governments, subject to a limit for the payment of damages and expenses of not more than 25% of the Program's available funds at the time the lawsuit was filed or the judgment becomes final, or \$1,000,000, whichever is less. The Program's liability for wrongful termination or harassment lawsuits is limited to 50% of the judgment or \$500,000, whichever is less. Punitive damages are not covered by the Program. Other exclusions from coverage and limitations on the Program's liability for loss are further explained in the Program Brochure.

The Executive Director of the League is the Program Administrator, and the League provides all facilities, personnel and services necessary for the administration of the Program. The operations of the Program are subject to oversight provided by the Municipal Legal Defense Program Board of Trustees. The assets of the Program are segregated from the League's assets and the assets of other programs managed by the League, and the League is not responsible for any obligations incurred by the Program. In the event of termination of the Program, any assets remaining after all Program obligations are satisfied will be distributed to the participating municipalities on a pro-rata basis. Any termination and distribution of assets shall comply with all federal and state laws.

The assets of the Program are held in the Municipal League Defense Program Trust, a self-funded risk management trust approved by the Executive Committee of the League (the Executive Committee) in November 2018.

These financial statements present only balances and transactions that are directly attributable to the Program and are not intended to present and do not present the financial position or results of operations of the League or any other benefit program or funds managed by the League.

Arkansas Municipal League Municipal Legal Defense Program

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The Program is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services are financed or recovered primarily through user charges.

The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income or loss, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Program.

Transactions of the Program are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, assets, liabilities, revenues and expenditures are recognized when cash is received or paid. Generally, non-cash transactions are not reported by the Program. Therefore, these financial statements do not report amounts receivable for annual fees billed but not collected or investment income earned but not received. These financial statements do not reflect liabilities or expenditures for goods or services received before year end for which payment has not yet been made. Expenditures related to judgments and settlements are reported as expenditures in the period in which they are paid. Reimbursements due from participating municipalities for judgment and settlement amounts or other costs paid by the Program that will ultimately not be covered by the Program are reported in the period the related judgments or settlements are paid and are netted against judgments and settlements. Investments are reported at cost, rather than fair value.

Basis of Presentation

Net position is categorized into amounts restricted and unrestricted, as applicable. As of December 31, 2021 and 2020, there were no restrictions on the net position of the Program.

Operating revenues and expenditures are distinguished from nonoperating revenues and expenditures for purposes of presentation on the statements of revenues, expenditures and changes in net position – modified cash basis. Operating revenues consist of annual fees and advance deposits collected from participating municipalities, and operating expenditures include costs related to payment of judgments and settlements (net of reimbursements), personnel costs, legal fees, court costs and other administrative costs. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to investing activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposit account maintained with a financial institution and equity in a pooled cash management account, which is a demand deposit account maintained

Arkansas Municipal League Municipal Legal Defense Program

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

with a financial institution by the League for the benefit of certain funds and benefit programs managed by the League.

Investments

To maximize investment opportunities and returns, the League pools the resources of certain funds and programs under its management in several internal investment pools, each of which has a different asset mix and investment strategy. An internal investment pool is an arrangement that commingles the moneys of more than one fund within one legal entity. The underlying investments that comprise the internal investment pools may include marketable equity securities, obligations of the U.S. government, obligations of U.S. government agencies and government-sponsored entities, mutual funds, exchange traded funds, alternative investments and investments in certain other debt securities, as approved by the Executive Committee.

Investments of the Program consist of ownership interests in these internal investment pools managed by the League. While the Program owns a participating interest in the pools, it does not own the underlying securities. Amounts invested by the Program in the internal investment pools are generally reported at cost on the statements of assets, liabilities and net position – modified cash basis. Net investment income (or loss) earned by the pools and certain investment fees are allocated to the Program and other pool participants on a pro-rata basis and are recorded as increases or decreases in the cost of the investment.

Annual Fees

Municipal entities must pay annual fees in order to participate in the Program. Per capita fee rates vary based on the latest census count and historical cumulative loss experience. The rate structure is evaluated each year by the Program Administrator and presented to the Board of Trustees for consideration and approval. Annual fees received in advance of the coverage period to which they apply are reported as unearned annual fees on the statements of assets, liabilities and net position – modified cash basis.

Advance Deposits

Each participating municipality is required to pay in advance the first \$3,000 or \$5,000 of the aggregate cost (depending on the type of entity), including legal fees, related to each covered lawsuit against the municipality, municipal officials or employees. This advance deposit is not refundable and is reported as revenue in the period in which it is collected.

Judgments and Settlements, Net

Judgment and settlement expenditures include payments for actual damages imposed against participating municipalities, their municipal officials and employees, as well as settlement payments on behalf of those same parties. Judgments and settlements are reported net of related reimbursements received or receivable from the participating municipality. Reimbursements attributable to 2021 and 2020 judgments and settlements totaled approximately \$90,100 and \$150,700, respectively.

Arkansas Municipal League

Municipal Legal Defense Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Judgments and Settlements, Net (Continued)

Reimbursements receivable are reported in the event that amounts related to judgment and settlement expenditures are due from participating municipalities but have not been collected at the reporting date. At December 31, 2021 and 2020, there were no such amounts due to the Program.

Tax Status

The Program is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

At December 31, cash and cash equivalents consist of the following:

	<u>2021</u>	<u>2020</u>
Demand deposit account	\$ 255,627	\$ 263,629
Equity in pooled cash management account	1,935,406	2,331,763
	<u>\$ 2,191,033</u>	<u>\$ 2,595,392</u>

The Program's demand deposit account, the pooled cash management account and the demand deposit accounts of other funds and benefit programs managed by the League that are maintained at the same financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), and any balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institutions and held in the name of the League. These collateral securities are maintained pursuant to the terms of collateral security agreements executed by the pledging financial institutions and the League and may not be released without the consent of the League.

Investments

The Executive Committee has created and appointed members of an investment subcommittee to establish investment guidelines, review and evaluate investment results, and make recommendations on investment matters pertaining to investing activities of the League and certain funds and the benefit programs under management of the League. The Investment Policy Statement (the Policy), as amended, was adopted by the League at the recommendation of the investment subcommittee, and sets forth basic investment objectives and philosophies. The requirements of the Policy are applied to the investment portfolio managed by the League for all funds and certain benefit programs managed by the League.

Arkansas Municipal League

Municipal Legal Defense Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The Policy specifies that the primary investment objective is to earn the highest possible return consistent with prudent levels of risk. In general, the Policy sets forth limitations and guidelines on industry concentrations and investment ratings. With respect to equity securities, no single equity security may exceed 10% of the aggregate fair value of all securities in the account in which that equity security is held. In addition, concentrations in any one economic sector are limited to 30% of the aggregate fair value of all securities in that account. With respect to debt securities, a minimum credit rating of A3/A- is generally required, with certain exceptions. With the exception of securities that are direct or guaranteed obligations of the U.S. government, concentrations with respect to any one issuer may not exceed 5% of the aggregate fair value of all securities in the account in which that debt security is held. Alternative investments are limited to 15% of the fair value of all the League's investments.

The table below provides detailed information about the internal investment pools in which the Program's assets are invested as of December 31, 2021 and 2020, including estimated fair values. Fair values disclosed for the underlying securities are determined by independent pricing sources. The fair values of debt securities are estimated using pricing models that consider various assumptions about interest rates, timing of cash flows and other market-related factors. The fair values of equity securities are based on unadjusted quoted prices for those securities in the active markets on which they are traded.

At December 31, the Program's ownership interest in each pool is as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity Securities				
Russell 3000 Account	\$ 1,284,573	\$ 5,232,296	\$ 1,284,573	\$ 4,161,268
Large Cap Growth Account	1,185,296	1,852,580	1,170,047	1,456,718
Wellington Management Accounts:				
Large Growth	1,397,048	2,165,654	1,464,377	2,259,886
Enduring Assets	1,422,318	1,706,389	1,366,783	1,496,935
International Quality Account	853,805	1,306,293	845,568	1,188,320
Stephens Opportunistic Account	184,928	189,822	257,005	267,916
Debt Securities				
Passive Bond Market Account	1,617,500	1,914,533	1,517,500	1,896,485
Arkansas Bond Account	571,627	572,870	462,757	470,685
Stephens Opportunistic Account	1,219,647	1,251,923	1,208,940	1,260,268
	<u>\$ 9,736,742</u>	<u>\$ 16,192,360</u>	<u>\$ 9,577,550</u>	<u>\$ 14,458,481</u>

Arkansas Municipal League Municipal Legal Defense Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

More detailed information about the internal investment pools, investment policies and required custodial and credit risk disclosures is included in the League's audited financial statements and related footnotes, which can be obtained by contacting the Arkansas Municipal League, 301 West 2nd Street, North Little Rock, Arkansas 72114.

NOTE 3: TRANSACTIONS WITH THE LEAGUE

The League maintains a supplemental aggregate reserve (the Reserve Fund) to cover significant, extraordinary judgments or settlements and other operational costs of the Program and other benefit programs managed by the League. Each benefit program covered by the Reserve Fund is assessed an annual reserve fee. The reserve fee attributable to the Program for 2021 and 2020 was 10% of expected annual fees for the year, payable in May.

The League charges a service fee to recover costs other than those related to payroll incurred in the administration of the Program and other benefit programs managed by the League. The service fee for the years ended December 31, 2021 and 2020, was calculated as 3% of the fair value of the Program's total assets on February 28, payable in March.

The Program reimburses the League for a portion of personnel costs attributable to employees of the League who are directly involved in the administration of the Program. These reimbursements totaled \$1,954,087 and \$1,829,000 during the years ended December 31, 2021 and 2020, respectively. In addition, a portion of personnel costs attributable to certain employees of the League who are directly involved in the administration of the Program are paid directly from the League's General Operating and Reserve Funds and are not reimbursed by the Program. Amounts paid by the League's General Operating and Reserve Funds are subject to change annually at the discretion of the Executive Committee. These amounts, which totaled \$154,084 and \$143,483 during the years ended December 31, 2021 and 2020, respectively, are reported in the Program's financial statements as operating subsidies – personnel costs.

During the year ended December 31, 2020, the Executive Committee voted that the Reserve Fund would reimburse the benefit programs for individual claims or settlements paid in excess of \$600,000 during the period from July 1, 2019 through June 30, 2020. The threshold for reimbursement for the period from July 1, 2020 through June 30, 2021, remained \$600,000. During the years ended December 31, 2021 and 2020, there were no claims or settlements eligible for reimbursement.

Arkansas Municipal League Municipal Legal Defense Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 3: TRANSACTIONS WITH THE LEAGUE (Continued)

Certain employees of the League perform accounting and other administrative duties for the Program. Personnel costs associated with these employees are paid by the League's General Operating Fund and are not reported in the Program's financial statements as management of the League believes such amounts are not readily determinable, but would not be material to the Program's financial statements.

During a portion of the year ended December 31, 2021, the Program performed litigation services for the Municipal Vehicle Program related to Part I Bodily Injury Claims. The Municipal Vehicle Program did not compensate the Program for these services and the value of such services cannot be reasonably estimated.

Beginning in 2020, all investment advisory service fees are paid by the Reserve Fund. Previously these fees had been allocated to and paid by the League's Capital Reserve Fund, Reserve Fund and the benefit programs managed by the League. Investment advisory fees are paid to Stephens, Inc. and totaled \$532,059 and \$280,360 for the years ended December 31, 2021 and 2020, respectively.

NOTE 4: RETIREMENT PLAN

Plan Description

Employees of the League that meet certain eligibility requirements participate in Arkansas Public Employees Retirement System (APERS), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Plan participants are fully vested in benefits provided under APERS upon reaching five years of service. Benefits, which are established and amended by state statute, are calculated on the basis of age, final average salary, years of service and a benefit factor. An annual stand-alone financial report for APERS may be obtained by mailing a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Although reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements, required disclosures related to the description of the plan, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the modified cash basis of accounting and are provided in the paragraphs that follow.

Contributions

Plan participants hired after July 1, 2005 are required to contribute 5.00% of their annual covered salary, and the League is required to contribute a percent of covered salary at rates established by the APERS Board of Trustees, based on actuarially determined rates. The employer contribution rate was 15.32% for the period from January 1, 2020 through December 31, 2021. Contribution requirements are set forth in state statute. The League's proportionate share of contributions for employees

Arkansas Municipal League

Municipal Legal Defense Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 4: RETIREMENT PLAN (Continued)

Contributions (Continued)

directly involved in management and operation of the Program for the years ended June 30, 2021 and 2020 were \$222,974 and \$223,570, respectively, which were equal to the required contributions for each year.

Net Pension Liability

The Plan determines the total collective net pension liability and the portion attributable to each participating employer on June 30 of each year (the actuarial valuation date and the measurement date). The League's proportionate share of the total collective net pension liability of all employers participating in APERS was \$2,596,707 and \$9,176,320 at June 30, 2021 and 2020, respectively. Management estimates that the portion of this liability attributable to employees directly involved in management and operation of the Program was \$560,369 and \$1,963,732 at June 30, 2021 and 2020, respectively.

NOTE 5: COMMITMENTS AND CONTINGENCIES

The Program is involved in providing legal defense services for participating municipalities as lawsuits arise in the normal course of business, subject to the terms and conditions set forth in the Program Brochure. At December 31, 2021, various participating municipalities and their elected officials and employees are involved in litigation or disputes that may ultimately result in a monetary judgment or settlement amount to be paid by the Program. Management of the League represents that a reliable estimate of such amount cannot be readily determined for disclosure in the notes to the financial statements. Such amount may be significant to the Program.

NOTE 6: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Program, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 7: SUBSEQUENT EVENTS

Market conditions associated with the current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments; however, at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they have on the Program's investments.



**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Municipal Health Benefit Program Trust
North Little Rock, Arkansas

Program Administrator and Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinions

We have audited the modified cash basis financial statements of the **Municipal Health Benefit Program (the Health Benefit Program)** and the **Municipal Health Benefit Program – Life Benefit Account (the Life Benefit Account)**, which consist of the statements of assets, liabilities and net position – modified cash basis as of December 31, 2021 and 2020, and the statements of revenues, expenditures and changes in net position – modified cash basis for the years then ended, and the related notes to the financial statements. Collectively, the financial statements of the Health Benefit Program and the Life Benefit Account comprise the financial statements of the **Municipal Health Benefit Program Trust (the Trust)**. The Health Benefit Program and Life Benefit Account are benefit programs managed by the Arkansas Municipal League (the League).

In our opinion, the financial statements present fairly, in all material respects, the modified cash basis financial position of the **Municipal Health Benefit Program** and the **Municipal Health Benefit Program – Life Benefit Account**, which collectively comprise the **Municipal Health Benefit Trust**, as of December 31, 2021 and 2020, and the respective changes in their modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). 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 Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements and for determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Members of the Board of Trustees
Municipal Health Benefit Program Trust

Program Administrator and Management
Arkansas Municipal League

Responsibilities of Management for the Financial Statements *(Continued)*

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 ability of the Health Benefit Program and the Life Benefit Account to continue as going concerns for twelve months beyond the financial statement date, including 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 opinions. 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 U.S. GAAS 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 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement 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 basic financial statements.
- Obtain an understanding of internal control relevant to the audits 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 internal control of the Health Benefit Program or the Life Benefit Account. 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 ability of the Health Benefit Program and the Life Benefit Account to continue as going concerns for a reasonable period of time.

We are required to communicate to 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 audits.

Members of the Board of Trustees
Municipal Health Benefit Program Trust

Program Administrator and Management
Arkansas Municipal League

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Reporting Entity

As described in Note 1 to the financial statements, these financial statements present only balances and transactions that are directly attributable to the Health Benefit Program and the Life Benefit Account, which collectively comprise the Trust, and are not intended to present and do not present the financial position or results of operations of the League or any other program managed by the League.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
August 15, 2022

Financial Statements

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Statements of Assets, Liabilities and Net Position - Modified Cash Basis
December 31, 2021 and 2020**

	2021			2020		
	Health	Life	Trust	Health	Life	Trust
	Benefit Program	Benefit Account	Total	Benefit Program	Benefit Account	Total
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 6,957,056	\$ 129,864	\$ 7,086,920	\$ 7,780,550	\$ 172,386	\$ 7,952,936
Investments	15,207,222	2,890,015	18,097,237	18,523,887	2,954,316	21,478,203
TOTAL ASSETS	<u>\$ 22,164,278</u>	<u>\$ 3,019,879</u>	<u>\$ 25,184,157</u>	<u>\$ 26,304,437</u>	<u>\$ 3,126,702</u>	<u>\$ 29,431,139</u>
LIABILITIES AND NET POSITION						
Current Liabilities						
Premiums payable	\$ 27,599	\$ -	\$ 27,599	\$ 26,557	\$ -	\$ 26,557
Unearned membership fees	1,656,889	-	1,656,889	1,936,433	-	1,936,433
Total Liabilities	<u>1,684,488</u>	<u>-</u>	<u>1,684,488</u>	<u>1,962,990</u>	<u>-</u>	<u>1,962,990</u>
Net Position	<u>20,479,790</u>	<u>3,019,879</u>	<u>23,499,669</u>	<u>24,341,447</u>	<u>3,126,702</u>	<u>27,468,149</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 22,164,278</u>	<u>\$ 3,019,879</u>	<u>\$ 25,184,157</u>	<u>\$ 26,304,437</u>	<u>\$ 3,126,702</u>	<u>\$ 29,431,139</u>

See accompanying notes to financial statements.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Statements of Revenues, Expenditures and Change in Net Position – Modified Cash Basis
Years Ended December 31, 2021 and 2020**

	2021			2020		
	Health Benefit Program	Life Benefit Account	Trust Total	Health Benefit Program	Life Benefit Account	Trust Total
OPERATING REVENUES						
Membership fees	\$ 77,698,421	\$ -	\$ 77,698,421	\$ 76,271,405	\$ -	\$ 76,271,405
Total Operating Revenue	<u>77,698,421</u>	<u>-</u>	<u>77,698,421</u>	<u>76,271,405</u>	<u>-</u>	<u>76,271,405</u>
OPERATING EXPENDITURES						
Claims paid, net	75,167,423	120,000	75,287,423	66,883,612	80,000	66,963,612
Service fee	809,751	128,911	938,662	667,374	120,176	787,550
Reserve fee	388,276	15,065	403,341	391,140	19,851	410,991
Insurance premiums	1,062,576	-	1,062,576	1,001,199	-	1,001,199
Pharmacy administrative service fee	193,831	-	193,831	312,979	-	312,979
Claim consultant fees	1,446,721	-	1,446,721	1,293,692	-	1,293,692
Personnel costs	2,059,691	-	2,059,691	1,953,887	-	1,953,887
Other	947,946	-	947,946	708,370	-	708,370
Total Operating Expenditures	<u>82,076,215</u>	<u>263,976</u>	<u>82,340,191</u>	<u>73,212,253</u>	<u>220,027</u>	<u>73,432,280</u>
Operating (Loss) Income before Subsidies and Transfers	<u>(4,377,794)</u>	<u>(263,976)</u>	<u>(4,641,770)</u>	<u>3,059,152</u>	<u>(220,027)</u>	<u>2,839,125</u>

(Continued)

See accompanying notes to financial statements.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Statements of Revenues, Expenditures and Change in Net Position – Modified Cash Basis *(Continued)*
Years Ended December 31, 2021 and 2020**

	2021			2020		
	Health Benefit Program	Life Benefit Account	Trust Total	Health Benefit Program	Life Benefit Account	Trust Total
SUBSIDIES AND TRANSFERS						
Operating subsidies - personnel costs	\$ 118,904	\$ -	\$ 118,904	\$ 113,983	\$ -	\$ 113,983
Operating subsidies - excess claims	-	-	-	15,956	-	15,956
Operating transfers - dependent life fees	(45,505)	45,505	-	(43,844)	43,844	-
Total Subsidies and Transfers	73,399	45,505	118,904	86,095	43,844	129,939
Net Operating (Loss) Income	(4,304,395)	(218,471)	(4,522,866)	3,145,247	(176,183)	2,969,064
NONOPERATING REVENUES (EXPENDITURES), NET						
Investment income, net	452,477	126,750	579,227	373,977	106,810	480,787
Investment fees	(9,739)	(15,102)	(24,841)	(9,619)	(9,707)	(19,326)
Total Nonoperating Revenues, Net	442,738	111,648	554,386	364,358	97,103	461,461
(DECREASE) INCREASE IN NET POSITION	(3,861,657)	(106,823)	(3,968,480)	3,509,605	(79,080)	3,430,525
NET POSITION, BEGINNING OF YEAR	24,341,447	3,126,702	27,468,149	20,831,842	3,205,782	24,037,624
NET POSITION, END OF YEAR	\$ 20,479,790	\$ 3,019,879	\$ 23,499,669	\$ 24,341,447	\$ 3,126,702	\$ 27,468,149

See accompanying notes to financial statements.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arkansas Municipal League (the League) is a voluntary group of Arkansas cities and towns, founded in 1934. The League provides a variety of services and benefits to its members, including legislative advocacy, risk management and benefit programs, training and educational opportunities and informational publications. The Municipal Health Benefit Program Trust (the Trust) was established by the League in November 1981 to provide group life, dependent life and accidental death and dismemberment benefits, as well as disability income, health, vision, dental and post-employment benefits for employees, former employees, officials and former officials of participating municipalities, which include cities, towns and other governmental entities. Oversight of the Trust is the responsibility of a five-member Board of Trustees. The Trust, and the benefit programs offered under the Trust, will continue in perpetuity until the Executive Committee of the League (the Executive Committee) determines that it is no longer of benefit or in the best interests of the participating members to continue the Trust. The Trust Agreement may be amended at any time by the Trustees or the Executive Committee. In the event of termination of the Trust, any assets remaining after all obligations are satisfied will be distributed to the participating municipalities on a pro-rata basis. Any termination and distribution of assets shall comply with federal and state laws.

The Executive Director of the League is designated as the Program Administrator of the Trust, and the League provides all facilities, personnel and services necessary for the administration of the Trust. The assets of the Trust are segregated from the League's assets, and the League is not responsible for any obligations incurred by the Trust.

The Municipal Health Benefit Program (the Health Benefit Program) is a benefit program established under the Trust to account for all transactions and balances related to enrollment, collection of membership fees from participating municipalities, and administration and payment of health, vision, and dental claims for employees, officials and their covered dependents. Benefits are also available to eligible retirees and their dependents. Claims related to vision and employee and municipal official life and accidental death and dismemberment are covered under group insurance policies with commercial insurers, and premiums related to these policies are paid by the Health Benefit Program. The Municipal Health Benefit Program – Life Benefit Account (the Life Benefit Account) is a benefit program established under the Trust to segregate assets for and pay claims related to dependent life benefits, which are not covered under the Health Benefit Program.

In the event a claim is denied, and such denial is appealed by the affected member, claim denial appeal decisions made by the Executive Committee are final and binding.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

These financial statements present only balances and transactions that are directly attributable to the Health Benefit Program and the Life Benefit Account, which collectively comprise the Trust, and are not intended to present and do not present the financial position or results of operations of the League or any other benefit program managed by the League.

The terms and conditions of participation in the Health Benefit Program are set forth in the *Municipal Health Benefit Program Booklet* (the Booklet). At December 31, 2021, 300 municipal entities were participating in the Health Benefit Program, of which 193 were cities and towns. Covered lives at December 31, 2021, totaled 17,544, of which 11,812 were city and town employees, elected officials and their dependents. At December 31, 2020, there were 278 participating municipal entities, of which 188 were cities and towns. Covered lives at December 31, 2020, totaled 17,452, of which 11,505 were city and town employees, elected officials and their dependents.

Measurement Focus and Basis of Accounting

The Health Benefit Program and the Life Benefit Account are operated as enterprise funds. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services are financed or recovered primarily through user charges.

The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Health Benefit Program and the Life Benefit Account.

Transactions of the Health Benefit Program and Life Benefit Account are recorded in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, assets, liabilities, revenues and expenditures are recognized when cash is received or paid. Generally, non-cash transactions are not reported. Therefore, these financial statements do not report amounts receivable for annual fees due from participating municipalities or investment income earned but not received. In addition, these financial statements do not reflect liabilities or expenditures for goods or services received or for claims incurred before year end for which payment has not yet been made.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Net position is categorized into amounts restricted and unrestricted, as applicable. As of December 31, 2021 and 2020, there were no restrictions on the net position of the Health Benefit Program or the Life Benefit Account.

Operating revenues and expenditures are distinguished from nonoperating revenues and expenditures for purposes of presentation on the statements of revenues, expenditures and changes in net position – modified cash basis. Operating revenues consist of annual fees collected from participating municipalities, and operating expenditures include costs related to payment of claims, group insurance policy premiums and other administrative costs. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to investing activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposit account maintained with a financial institution, a government obligation money market mutual fund, and equity in a pooled cash management account, which is a demand deposit account maintained with a financial institution by the League for the benefit of certain funds and benefit programs managed by the League.

Investments

Investments of the Health Benefit Program consist of United States (U.S.) Treasury obligations, U.S. agency and government-sponsored entity obligations, corporate debt securities and municipal bonds, all held in a separate account by an agent of the League in the name of the League for the benefit of the Health Benefit Program. These investments are reported at cost on the statements of assets, liabilities and net position – modified cash basis. Premiums and discounts are not amortized or accreted; therefore, reported amounts of investment income include only cash received. Purchases and sales of investments are recorded when the transaction settles. Dividends, interest and realized gains (or losses) on sales of investments are reported as investment income, net, on the statements of revenue, expenditures and changes in net position – modified cash basis.

Investments of the Life Benefit Account consist of ownership interests in certain internal investment pools managed by the League. To maximize investment opportunities and returns, the League pools the resources of certain funds and benefit programs under its management in several internal investment pools, each of which has a different asset mix and investment strategy. An internal investment pool is an arrangement that commingles the moneys of more than one legal entity. The underlying investments that comprise the internal investment pools may include marketable equity securities, obligations of the U.S. government, obligations of U.S. government agencies and government-sponsored entities, mutual funds, exchange traded funds, alternative investments and investments in certain other debt securities, as approved by the Executive Committee.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

While the Life Benefit Account owns a participating interest in the pools, it does not own the underlying securities. Amounts invested by the Life Benefit Account in the internal investment pools are generally reported at cost in the statements of assets, liabilities and net position – modified cash basis. Net investment income (or loss) earned by the pools and certain investment fees are allocated to the Life Benefit Account and other pool participants on a pro-rata basis and are recorded as increases or decreases in the cost of the investment.

Membership Fees

Participating municipal entities pay membership fees, which vary based on historical loss ratios and benefit options selected. Membership fees are evaluated every six months by management of the League and are subject to approval by the Board of Trustees. Membership fees are billed monthly, and amounts received in advance of the period to which they apply are reported as unearned membership fees in the statements of assets, liabilities and net position – modified cash basis. Membership fees attributable to dependent life benefits in excess of related premiums paid to the commercial insurer are transferred from the Health Benefit Program to the Life Benefit Account.

Claims Paid, Net

Health Benefit Program claims include payments made for covered benefits, net of recoveries for overpayments, payments made in error and medical and prescription drug rebates. During the year ended December 31, 2021, recoveries totaled \$126,227, and rebates totaled \$2,444,107. During the year ended December 31, 2020, recoveries totaled \$236,351, and rebates totaled \$2,651,643. Life Benefit Account claims include payments made to members or their designated beneficiaries for dependent life benefits.

Tax Status

The Trust is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

At December 31, 2021 cash and cash equivalents include the following:

	2021		
	Health Benefit Program	Life Benefit Account	Total
Demand deposit account	\$ 1,502,885	\$ -	\$ 1,502,885
Equity in pooled cash management account	1,639,712	129,864	1,769,576
Money market mutual fund	3,814,459	-	3,814,459
	<u>\$ 6,957,056</u>	<u>\$ 129,864</u>	<u>\$ 7,086,920</u>

At December 31, 2020 cash and cash equivalents include the following:

	2020		
	Health Benefit Program	Life Benefit Account	Total
Demand deposit account	\$ 1,712,972	\$ -	\$ 1,712,972
Equity in pooled cash management account	5,992,891	172,386	6,165,277
Money market mutual fund	74,687	-	74,687
	<u>\$ 7,780,550</u>	<u>\$ 172,386</u>	<u>\$ 7,952,936</u>

The demand deposit account, the pooled cash management account and the accounts of other funds and benefit programs managed by the League that are maintained at the same financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), and any balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institution and held in the name of the League. These collateral securities are maintained pursuant to the terms of collateral security custody agreements executed by the pledging financial institutions and the League and may not be released without the consent of the League.

The money market mutual funds are open-ended mutual funds rated Aaa-mf that invest in U.S. Treasury securities and repurchase agreements solely with the Federal Reserve Bank of New York, collateralized by U.S. Treasury obligations, and have a Standard & Poor's/Moody's credit rating of AAAM/Aaa-mf.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments

The Executive Committee has created and appointed members of an investment subcommittee to establish investment guidelines, review and evaluate investment results, and make recommendations on investment matters pertaining to investing activities of the League and certain funds and benefit programs under management of the League. The Investment Policy Statement (the Policy), as amended sets forth basic investment objectives and philosophies. The requirements of the Policy are applied to the investment portfolio managed by the League for all funds and certain benefit programs managed by the League.

The Policy specifies that the primary investment objective is to earn the highest possible return consistent with prudent levels of risk. In general, the Policy sets forth limitations and guidelines on industry concentrations and investment ratings. With respect to equity securities, no single equity security may exceed 10% of the aggregate fair value of all securities in the account in which that equity security is held. In addition, concentrations in any one economic sector are limited to 30% of the aggregate fair value of all securities in that account. With respect to debt securities, a minimum credit rating of A3/A- is generally required, with certain exceptions. With the exception of securities that are direct or guaranteed obligations of the U.S. government, concentrations with respect to any one issuer may not exceed 5% of the aggregate fair value of all securities in the account in which that debt security is held. Alternative investments are limited to 15% of the fair value of all the League's investments.

Detailed information about investments held by the Health Benefit Program and the internal investment pools in which the Life Benefit Account assets are invested as of December 31, 2021 and 2020, including estimated fair values, is provided in the following tables. Fair values disclosed for the Health Benefit Program investments and the underlying securities that comprise the Life Benefit Account's internal investment pools are determined by independent pricing sources. The fair values of equity securities are based on unadjusted quoted prices for those securities in the active markets on which they are traded. The fair values of debt securities are estimated using pricing models that consider various assumptions about interest rates, timing of cash flows and other market-related factors.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Health Benefit Program Investments

At December 31, the Health Benefit Program's investment portfolio consists of the following:

	2021			
	Cost ⁽¹⁾	Fair Value	Weighted Average Life (Years)	Credit Rating
U.S. Treasury obligations	\$ 4,743,711	\$ 4,919,077	3.58	Aaa/AAA
U.S. agency and government-sponsored entity obligations	4,457,416	4,548,082	8.42	Aaa/AA+
Corporate notes and bonds	5,511,461	5,460,738	4.54	Aa1/AA+ to Baa3/BBB-
Municipal bonds	494,634	495,287	5.08	Aaa/AAA
	<u>\$ 15,207,222</u>	<u>\$ 15,423,184</u>		
	2020			
	Cost ⁽¹⁾	Fair Value	Weighted Average Life (Years)	Credit Rating
U.S. Treasury obligations	\$ 5,895,966	\$ 6,142,208	2.37	Aaa/AA+
U.S. agency and government-sponsored entity obligations	5,669,402	5,908,120	14.14	Aaa/AA+
Corporate notes and bonds	6,463,885	6,646,621	4.96	Aa1/AA+ to Baa3/BBB-
Municipal bonds	494,634	514,187	6.08	Aaa/AAA
	<u>\$ 18,523,887</u>	<u>\$ 19,211,136</u>		

⁽¹⁾ Historical cost. Does not include amortization/accretion of premiums/discounts.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Life Benefit Account Investments

At December 31, the Life Benefit Account's ownership interest in each individual pool is as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity Securities				
Russell 3000 Account	\$ 208,180	\$ 847,955	\$ 208,180	\$ 674,382
Large Cap Growth Account	222,569	347,869	219,706	273,535
Wellington Management Accounts:				
Large Growth	315,033	488,352	330,215	509,602
Enduring Assets	320,731	384,789	308,208	337,557
International Quality Account	192,532	294,568	190,675	267,965
Debt Securities				
Passive Bond Market Account	1,454,408	1,721,492	1,554,408	1,942,611
Arkansas Bond Account	176,562	177,004	142,924	145,431
	<u>\$ 2,890,015</u>	<u>\$ 4,262,029</u>	<u>\$ 2,954,316</u>	<u>\$ 4,151,083</u>

More detailed information about the internal investment pools, investment policies and required custodial and credit risk disclosures are included in the League's audited financial statements and related footnotes, which can be obtained by contacting the Arkansas Municipal League, 301 West 2nd Street, North Little Rock, Arkansas 72114.

NOTE 3: INSURANCE PREMIUMS

The Health Benefit Program insures a portion of its risk with commercial insurers through contractual agreements. Policies in effect during 2021 and 2020 provided benefits covering vision, loss of life and accidental death and dismemberment. A contingent liability may exist in the event that the insurer is unable to meet its obligation specified under the reinsurance agreement. Reinsurance does not relieve the Health Benefit Program from its obligations to participating municipalities.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 4: TRANSACTIONS WITH THE LEAGUE

The League maintains a supplemental aggregate reserve (the Reserve Fund) to cover significant, extraordinary benefit claims and other operational costs of the Health Benefit Program, the Life Benefit Account and other benefit programs managed by the League. Each benefit program covered by the Reserve Fund is assessed an annual reserve fee. For the years ended December 31, 2021 and 2020, the fee attributable to the Health Benefit Program was \$4.00 per covered employee, per month. For the years ended December 31, 2021 and 2020, the fee attributable to the Life Benefit Account was 10% of annual income, payable in March.

The League charges a service fee to recover costs other than those related to payroll incurred in the administration of the Health Benefit Program and Life Benefit Account and other benefit programs managed by the League. During the years ended December 31, 2021 and 2020, the service fee for the Health Benefit Program was calculated as 3% of the fair value of total assets on December 31 of the preceding year, payable in January. During the years ended December 31, 2021 and 2020, the service fee for the Life Benefit Account was calculated as 3% of the fair value of total assets on February 28 and 29, respectively, payable in March.

The Health Benefit Program reimburses the League for a portion of personnel costs attributable to employees of the League who are directly involved in the administration of the Health Benefit Program and the Life Benefit Account. These reimbursements totaled \$1,940,787 and \$1,839,904 during the years ended December 31, 2021 and 2020, respectively. In addition, a portion of the personnel costs attributable to certain employees of the League who are directly involved in the administration of the Health Benefit Program are paid directly from the League's General Operating and Reserve Funds and are not reimbursed by the Health Benefit Program. Amounts paid by the League's General Operating and Reserve Funds are subject to change annually at the discretion of the Executive Committee. These amounts, which totaled \$118,904 and \$113,983 during the years ended December 31, 2021 and 2020, respectively, are reported in the Health Benefit Program's financial statements as operating subsidies – personnel costs.

Certain employees of the League perform accounting, legal and other administrative duties for the Trust. Personnel costs associated with these employees are paid by the League's General Operating Fund and are not reported in the Trust's financial statements as management of the League believes such amounts are not readily determinable and would not be material to the Trust's financial statements.

During the year ended December 31, 2019, the Executive Committee voted that the Reserve Fund would reimburse benefit programs for amounts in excess of \$300,000 paid on individual claims during the period from July 1, 2018 through June 30, 2019. The threshold for reimbursement of claims paid during the period from July 1, 2019 through June 30, 2020, was increased to \$600,000 by the Executive Committee. During the year ended December 31, 2020, the Reserve Fund reimbursed the

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 4: TRANSACTIONS WITH THE LEAGUE (Continued)

Health Benefit Program \$15,956. There were no such reimbursements during the year ended December 31, 2021.

Employees of the League participate in benefits provided through the Health Benefit Program and the Life Benefit Account. Membership fees attributable to coverage provided to employees of the League totaled \$824,267 and \$786,872 for the years ended December 31, 2021 and 2020, respectively.

Beginning in 2020, all investment advisory service fees are paid by the Reserve Fund. Previously, these fees had been allocated to and paid by the League's Capital Reserve Fund, Reserve Fund and the benefit programs managed by the League. Investment advisory fees totaled \$532,059 and \$280,360 for the years ended December 31, 2021 and 2020, respectively.

NOTE 5: RETIREMENT PLAN

Although reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements, required disclosures related to the description of the plan, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the modified cash basis of accounting and are providing in the paragraphs that follow.

Plan Description

Employees of the League that meet certain eligibility requirements participate in Arkansas Public Employees Retirement System (APERS), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Plan participants are fully vested in benefits provided under APERS upon reaching five years of service. Benefits, which are established and amended by state statute, are calculated on the basis of age, final average salary, years of service and a benefit factor. An annual stand-alone financial report for APERS may be obtained by mailing a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

**Arkansas Municipal League
Municipal Health Benefit Program
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**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 5: RETIREMENT PLAN (Continued)

Contributions

Plan participants hired after July 1, 2005 are required to contribute 5.00% of their annual covered salary, and the League is required to contribute a percent of covered salary at rates at an actuarially determined rate, established by the APERS Board of Trustees. The employer contribution rate was 15.32% for the period from January 1, 2020 through December 31, 2021. Contribution requirements are set forth in state statute. The League's proportionate share of contributions for employees directly involved in management and operation of the Health Benefit Program and the Life Benefit Account for the Plan years ended June 30, 2021 and 2020 were \$207,062 and \$202,976, respectively, which were equal to the required contributions for each year.

Net Pension Liability

The Plan determines the total collective net pension liability and the portion attributable to each participating employer on June 30 of each year (the actuarial valuation date and the measurement date). The League's proportionate share of the total collective net pension liability of all employers participating in APERS was \$2,596,707 and \$9,176,320 at June 30, 2021 and 2020, respectively. Management estimates that the portion of this liability attributable to employees directly involved in management and operation to the Health Benefit Program and the Life Benefit Account was \$520,380 and \$1,944,462 at June 30, 2021 and 2020, respectively.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Management of the League does not report in the financial statements an estimate of the Health Benefit Program's obligation for claims incurred and reported before year end that were paid after year end (claims payable) or claims incurred before year end but not reported until after year end (IBNR). However, management does estimate the aggregate amount of claims payable and IBNR at each year end based on actual payments of claims related to events that occurred during the reporting period, but were paid or are expected to be paid in the subsequent reporting period. Estimated claims payable and IBNR at December 31, 2021, based on events that occurred during 2021 and actual payments related to those claims during the period from January 1, 2022 through March 31, 2022 and an estimate of claims to be paid from April 1, 2022 through December 31, 2022, totaled approximately \$14,381,000.

NOTE 7: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Health Benefit Program and the Life Benefit Account, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

**Arkansas Municipal League
Municipal Health Benefit Program
and
Municipal Health Benefit Program – Life Benefit Account**

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 8: SUBSEQUENT EVENTS

Market disruptions associated with the current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments; however, at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they have on investments of the Health Benefit Program and the Life Benefit Account.



**Arkansas Municipal League
Municipal Vehicle Program**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

Arkansas Municipal League Municipal Vehicle Program

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Municipal Vehicle Program Trust
North Little Rock, Arkansas

Program Administrator and Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinion

We have audited the modified cash basis financial statements of the **Municipal Vehicle Program (the Program)**, which consist of the statements of assets, liabilities and net position – modified cash basis as of December 31, 2021 and 2020, and the statements of revenues, expenditures and changes in net position – modified cash basis for the years then ended, and the related notes to the financial statements. The Program is a benefit program managed by the Arkansas Municipal League (the League), subject to oversight by the members of the Board of Trustees of the Program.

In our opinion, the financial statements present fairly, in all material respects, the modified cash basis financial position of the Program as of December 31, 2021 and 2020, and the changes in its modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). 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 Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, when considered in the aggregate, that raise substantial doubt about the Program'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.

Members of the Board of Trustees
Municipal Vehicle Program Trust

Program Administrator and Management
Arkansas Municipal League

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 U.S. GAAS 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Program'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 Program'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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Members of the Board of Trustees
Municipal Vehicle Program Trust

Program Administrator and Management
Arkansas Municipal League

Emphasis of Matter – Reporting Entity

As disclosed in Note 1 to the financial statements, these financial statements present only balances and transactions that directly attributable to the Program and are not intended to and do not present the financial position or results of operation of the League or any benefit program managed by the League.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a more upright, blocky style.

Little Rock, Arkansas
July 12, 2022

Financial Statements

Arkansas Municipal League Municipal Vehicle Program

Statements of Assets, Liabilities and Net Position – Modified Cash Basis December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,400,260	\$ 2,116,927
Investments	21,399,764	24,225,696
Due from Reserve Fund	-	12,248
Reinsurance proceeds receivable	<u>320,667</u>	<u>39,558</u>
TOTAL ASSETS	<u><u>\$ 26,120,691</u></u>	<u><u>\$ 26,394,429</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Due to Municipal Property Program	<u>\$ -</u>	<u>\$ 8,000</u>
Net Position	<u>26,120,691</u>	<u>26,386,429</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 26,120,691</u></u>	<u><u>\$ 26,394,429</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League Municipal Vehicle Program

Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Annual fees	\$ 8,990,640	\$ 8,503,837
Other	19,229	-
Total Operating Revenues	<u>9,009,869</u>	<u>8,503,837</u>
OPERATING EXPENDITURES		
Claims:		
Claims paid, net	8,146,771	6,416,094
Adjustors' charges	189,133	177,470
Total claims	<u>8,335,904</u>	<u>6,593,564</u>
Service fee	1,033,316	944,666
Reserve fee	850,384	772,194
Reinsurance premiums	452,911	317,235
Personnel costs	387,079	371,615
Computer contract services	4,088	22,984
Other	646	3,951
Total Operating Expenditures	<u>11,064,328</u>	<u>9,026,209</u>
Operating Loss before Subsidies	(2,054,459)	(522,372)
SUBSIDIES		
Operating subsidy - personnel costs	95,982	92,473
Operating subsidy - reinsurance premiums	221,467	186,996
Total Subsidies	<u>317,449</u>	<u>279,469</u>
Net Operating Loss	<u>(1,737,010)</u>	<u>(242,903)</u>
NONOPERATING REVENUES (EXPENDITURES), NET		
Investment income	1,647,378	900,291
Investment fees	(176,106)	(109,955)
Total Nonoperating Revenues, Net	<u>1,471,272</u>	<u>790,336</u>
(DECREASE) INCREASE IN NET POSITION	(265,738)	547,433
NET POSITION, BEGINNING OF YEAR	<u>26,386,429</u>	<u>25,838,996</u>
NET POSITION, END OF YEAR	<u>\$ 26,120,691</u>	<u>\$ 26,386,429</u>

See accompanying notes to financial statements.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arkansas Municipal League (the League) is a voluntary group of Arkansas cities and towns, founded in 1934. The League provides a variety of services and benefits to its members, including legislative advocacy, risk management and benefit programs, training and educational opportunities and informational publications. The Municipal Vehicle Program (the Program) was established by the League in January of 1982 as a risk sharing pool to cover losses related to vehicles and certain mobile equipment owned and operated by participating municipalities, which include cities, towns and other governmental entities. The terms and conditions of the Program are set forth in the Program Brochure. During the years ended December 31, 2021 and 2020, the number of cities and towns participating in the Program totaled 436 and 438, respectively. Participating municipalities or the Program may terminate coverage by giving the other party 30 days' notice in writing.

Each participating municipality must list motor vehicles and mobile equipment to be covered by the Program on an enumeration schedule. The Program will pay damages related to bodily injury, death or property damage incurred by a covered motor vehicle or mobile equipment and for which the municipality is liable under Arkansas Code Annotated 21-9-303 (Part I). In the event of a loss, the participating municipality is required to give notice to the Program as soon as possible, but not more than twenty (20) days after the loss. Payments made by the Program are limited to \$25,000 for bodily injury or death to one person in any one accident, \$50,000 for bodily injury or death to two or more persons in any one accident, and \$25,000 for damage to or destruction of property of others in any one accident. The Program also covers all risks of direct physical loss of or damage to motor vehicles and mobile equipment listed on the enumeration schedule (Part II). Exclusions from coverage and limitations on the Program's liability for loss are further explained in the Program Brochure.

The Executive Director of the League is designated as the Program Administrator, and the League provides all facilities, personnel and services necessary for the administration of the Program. The Program Administrator is required to conduct at least annually a meeting for all participating municipalities. The operations of the Program are subject to oversight provided by the Municipal Vehicle Program Trust Board of Trustees. The assets of the Program are segregated from the League's assets and the assets of other programs managed by the League, and the League is not responsible for any obligations incurred by the Program. In the event of termination of the Program, any assets remaining after all Program obligations are satisfied will be distributed to the participating municipalities on a pro-rata basis. Any termination and distribution of assets shall comply with federal and state laws.

The assets of the Program are held in the Municipal Vehicle Program Trust, a self-funded risk management trust approved by the Executive Committee of the League (the Executive Committee) in November 2018.

These financial statements present only balances and transactions that are directly attributable to the Program and are not intended to present and do not present the financial position or results of operations of the League or any other benefit program or funds managed by the League.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The Program is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services are financed or recovered primarily through user charges.

The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Program.

Transactions of the Program are recorded in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, assets, liabilities, revenues and expenditures are generally recognized when cash is received or paid. Generally, non-cash transactions are not reported by the Program. Therefore, these financial statements do not report amounts receivable for annual fees due from participating municipalities or investment income earned but not received. Annual fees are recorded as revenue when collected, without regard to the coverage period to which they apply. In addition, these financial statements do not reflect liabilities or expenditures for goods or services received or for claims incurred before year end for which payment has not yet been made. Investments are reported at cost, rather than fair value. Expected reinsurance proceeds are reported in the period the related claims are paid. Reinsurance premiums are reported as expenditures during the period of coverage.

Basis of Presentation

Net position is categorized into amounts restricted and unrestricted, as applicable. As of December 31, 2021 and 2020, there were no restrictions on the net position of the Program.

Operating revenues and expenditures are distinguished from nonoperating revenues and expenditures for purposes of presentation on the statements of revenues, expenditures and changes in net position – modified cash basis. Operating revenues consist of annual fees collected from participating municipalities, and operating expenditures include costs related to payment of claims (net of reinsurance recoveries and subrogation/salvage proceeds), personnel costs, reinsurance premiums and other administrative costs. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to investing activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposit account maintained with a financial institution, undeposited receipts and equity in a pooled cash management account, which is a demand deposit account maintained with a financial institution by the League for the benefit of certain funds and benefit programs managed by the League.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

To maximize investment opportunities and returns, the League pools the resources of certain funds and programs under its management in several internal investment pools, each of which has a different asset mix and investment strategy. An internal investment pool is an arrangement that commingles the moneys of more than one fund within one legal entity. The underlying investments that comprise the internal investment pools may include marketable equity securities, obligations of the U.S. government, obligations of U.S. government agencies and government-sponsored entities, mutual funds, exchange traded funds, alternative investments and investments in certain other debt securities, as approved by the Executive Committee.

Investments of the Program consist of ownership interests in these internal investment pools managed by the League. While the Program owns a participating interest in the pools, it does not own the underlying securities. Amounts invested by the Program in the internal investment pools are generally reported at cost on the statements of assets, liabilities and net position – modified cash basis. Net investment income (or loss) earned by the pools and certain investment fees are allocated to the Program and other pool participants on a pro-rata basis and are recorded as increases or decreases in the cost of the investment.

Annual Fees

Annual fees to participate in the Program are calculated based on motor vehicle and mobile equipment values specified by each participating municipality on the enumeration schedule and rates, which vary based on historical loss ratios. Rates are determined by the League, subject to approval by participating municipalities who attend the annual meeting. Annual fees are billed on each participating municipality's anniversary date and are recorded as revenue when collected, without regard to the coverage period to which they apply.

Claims Paid, Net

Claims paid include all damages paid under Part I due to bodily injury, death or property damage. Claims paid also include all amounts paid under Part II, which are generally calculated based on the full cost to repair or replace the covered vehicle or mobile equipment up to the maximum value assigned on the enumeration schedule, after deduction for depreciation.

Claims paid are reported net of subrogation payments received by the Program for claims related to losses caused by a third party who is legally responsible and salvage proceeds related to the sale of damaged property. For the years ended December 31, 2021 and 2020, subrogation and salvage payments collected totaled \$628,945 and \$491,690, respectively.

Claims paid are also reported net of amounts recovered or to be recovered under the Program's reinsurance policy (see Note 3). Reinsurance recoveries applicable to claims paid totaled \$281,109 and \$391,772 for the years ended December 31, 2021 and 2020, respectively.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

The Program is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

At December 31, cash and cash equivalents include the following:

	<u>2021</u>	<u>2020</u>
Demand deposit account	\$ 2,099,246	\$ 1,558,228
Undeposited receipts	20,452	-
Equity in pooled cash management account	<u>2,280,562</u>	<u>558,699</u>
	<u>\$ 4,400,260</u>	<u>\$ 2,116,927</u>

The Program's demand deposit account, the pooled cash management account and the demand deposit accounts of other funds and benefit programs managed by the League that are maintained at the same financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), and any balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institution and held in the name of the League. These collateral securities are maintained pursuant to the terms of collateral security custody agreements executed by the pledging financial institutions and the League and may not be released without the consent of the League.

Investments

The Executive Committee has created and appointed members of an investment subcommittee to establish investment guidelines, review and evaluate investment results, and make recommendations on investment matters pertaining to investing activities of the League and certain funds and benefit programs under management of the League. The Investment Policy Statement (the Policy), as amended, sets forth basic investment objectives and philosophies. The requirements of the Policy are applied to the investment portfolio managed by the League for all funds and certain benefit programs managed by the League.

The Policy specifies that the primary investment objective is to earn the highest possible return consistent with prudent levels of risk. In general, the Policy sets forth limitations and guidelines on

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

industry concentration and investment ratings. With respect to equity securities, no single equity security may exceed 10% of the aggregate fair value of all securities in the account in which that equity security is held. In addition, concentrations in any one economic sector are limited to 30% of aggregate fair value of all securities in that account. With respect to debt securities, a minimum credit rating of A3/A- is generally required, with certain exceptions. With the exception of securities that are direct or guaranteed obligations of the U.S. government, concentrations with respect to any one issuer may not exceed 5% of the aggregate fair value of all securities in the account in which that debt security is held. Alternative investments are limited to 15% of the fair value of all the League's investments.

The table below provides detailed information about the internal investment pools in which the Program's assets are invested as of December 31, 2021 and 2020, including estimated fair values. Fair values of the underlying securities are determined by independent pricing sources. The fair values of debt securities are estimated using pricing models that consider various assumptions about interest rates, timing of cash flows and other market-related factors. The fair values of equity securities are based on unadjusted quoted prices for those securities in the active markets on which they are traded. The fair values of alternative investments are estimated based on the capital investment made by the League into those funds, adjusted for gains and losses and other highly subjective factors.

At December 31, the Program's ownership interest in each individual pool is as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity Securities				
Russell 3000 Account	\$ 1,516,075	\$ 6,175,248	\$ 1,516,075	\$ 4,911,201
Large Cap Growth Account	2,304,589	3,602,001	2,274,940	2,832,319
Wellington Management Accounts:				
Large Growth	4,252,610	6,592,244	4,457,561	6,879,087
Enduring Assets	4,329,533	5,194,243	4,160,484	4,556,667
International Quality Growth	2,598,979	3,976,353	2,573,908	3,617,242
Stephens Opportunistic Account	16,433	16,868	935,076	974,776
Debt Securities				
Arkansas Bond Account	1,994,849	1,999,200	1,614,911	1,642,595
Passive Bond Market Account	3,000,000	3,550,913	-	-
Stephens Opportunistic Account	108,380	111,248	4,398,560	4,585,308
Alternative Investments				
CapRocq Core Real Estate Fund L.P.	201,026	201,026	433,399	433,399
KKR Lending Partners, L.P.	76,302	76,302	63,280	63,280
Owl Rock Capital Corporation	1,000,988	934,180	1,000,988	835,220
Master limited partnerships	-	-	796,514	506,106
	<u>\$ 21,399,764</u>	<u>\$ 32,429,826</u>	<u>\$ 24,225,696</u>	<u>\$ 31,837,200</u>

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

More detailed information about the internal investment pools, investment policies and required custodial and credit risk disclosures is included in the League's audited financial statements and related footnotes, which can be obtained by contacting the Arkansas Municipal League, 301 West 2nd Street, North Little Rock, Arkansas 72114.

NOTE 3: REINSURANCE

In order to limit the Program's potential liability for large aggregate and individual losses, the Program insures a portion of its risk with a commercial insurer through a contractual agreement typically referred to as reinsurance. The policies in effect during 2021 and 2020 generally provided coverage when a loss exceeded \$200,000 per occurrence up to \$800,000 of the ultimate net loss per occurrence. A contingent liability may exist in the event that the insurer is unable to meet its obligations specified under the reinsurance agreement. Reinsurance does not relieve the Program from its obligations to participating municipalities.

NOTE 4: TRANSACTIONS WITH THE LEAGUE

The League maintains a supplemental aggregate reserve (the Reserve Fund) to cover significant, extraordinary claims and other operational costs of the Program and other benefit programs managed by the League. Each benefit program covered by the Reserve Fund is assessed an annual reserve fee. For each of the years ended December 31, 2021 and 2020, the fee attributable to the Program was 10% of the previous year annual fees collected, payable in January.

The League charges a service fee to recover costs other than those related to payroll incurred in the administration of the Program and other programs managed by the League. The service fee for the years ended December 31, 2021 and 2020, was calculated as 3% of the fair value of the Program's cash, cash equivalents, investments and reinsurance receivable on January 31, payable in February.

All or a portion of reinsurance premiums for the Program may be paid by the Reserve Fund, at the discretion of the Executive Committee. For the years ended December 31, 2021 and 2020, the Executive Committee approved that the Reserve Fund cover 50% of total reinsurance premiums. Such reinsurance premium costs covered by the Reserve Fund are reported as operating subsidy – reinsurance premiums on the statements of revenues, expenditures and changes in net position – modified cash basis.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 4: TRANSACTIONS WITH THE LEAGUE (Continued)

Certain employees of the League are dedicated to manage and conduct the day-to-day operations of both the Program and the Municipal Property Program, which is another benefit program offered by the League. The actual costs incurred in performing duties specific to the Program or the Municipal Property Program based on time and effort have not been measured. For the years ended December 31, 2021 and 2020, management has elected to report all personnel costs associated with the Program and the Municipal Property Program in the Program's financial statements.

The Program reimburses the League for a portion of personnel costs attributable to employees of the League who are directly involved in the administration of the Program and the Municipal Property Program. These reimbursements totaled \$291,097 and \$279,142 during the years ended December 31, 2021 and 2020, respectively. In addition, a portion of personnel costs attributable to certain employees of the League who are directly involved in the administration of the Program and the Municipal Property Program are paid directly from the League's General Operating and Reserve Funds and are not reimbursed by the Program. Amounts paid by the League's General Operating and Reserve Funds are subject to change annually at the discretion of the Executive Committee. These amounts, which totaled \$95,982 and \$92,473 during the years ended December 31, 2021 and 2020, respectively, are reported in the Program's financial statements as operating subsidy - personnel costs. The Municipal Property Program does not reimburse the Program or the League's General Operating and Reserve Funds for any personnel costs.

Certain employees of the League perform accounting, legal and other administrative duties for the Program. Personnel costs associated with these employees are paid by the League's General Operating Fund and are not reported in the Program's financial statements as management of the League believes such amounts are not readily determinable, but would not be material to the Program's financial statements.

Vehicles owned by the League are covered under the Program. Annual fees paid by the League for participation in the Program totaled \$3,003 and \$2,400 for the years ended December 31, 2021 and 2020, respectively. There were approximately \$3,906 and \$186 in claims and claims-related expenses paid by the Program related to losses incurred by League during the years ended December 31, 2021 and 2020, respectively.

During a portion of the year ended December 31, 2021, the Municipal Legal Defense Program performed litigation services for the Program related to Part I Bodily Injury Claims. The Program did not compensate the Municipal Legal Defense Program for these services and the value of such services cannot be reasonably estimated.

Beginning in 2020, all investment advisory service fees are paid by the Reserve Fund. Previously these fees had been allocated to and paid by the League's Capital Reserve Fund, Reserve Fund and the benefit programs managed by the League. Investment advisory fees are paid to Stephens, Inc. and totaled \$532,059 and \$280,360 for the years ended December 31, 2021 and 2020, respectively.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 5: RETIREMENT PLAN

Plan Description

Employees of the League that meet certain eligibility requirements participate in Arkansas Public Employees Retirement System (APERS), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Plan participants are fully vested in benefits provided under APERS upon reaching five years of service. Benefits, which are established and amended by state statute, are calculated on the basis of age, final average salary, years of service and a benefit factor. An annual stand-alone financial report for APERS may be obtained by mailing a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Although reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements, required disclosures related to the description of the plan, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the modified cash basis of accounting and are provided in the paragraphs that follow.

Contributions

Plan participants hired after July 1, 2005 are required to contribute 5.00% of their annual covered salary, and the League is required to contribute a percent of covered salary at an actuarially determined rate, as approved by the APERS Board of Trustees. The employer contribution rate was 15.32% for the period from January 1, 2020 through December 31, 2021. Contribution requirements are set forth in state statute. The League's proportionate share of contributions for employees directly involved in management and operation of the Program and the Municipal Property Program for the years ended June 30, 2021 and 2020 were \$31,824 and \$30,173, respectively, which were equal to the required contributions for the year.

Net Pension Liability

The Plan determines the total collective net pension liability and the portion attributable to each participating employer on June 30 of each year (the actuarial valuation date and the measurement date). The League's proportionate share of the total collective net pension liability of all employers participating in APERS was \$2,596,707 and \$9,176,320 at June 30, 2021 and 2020, respectively. Management estimates that the portion of this liability attributable to employees directly involved in management and operation of the Program and the Municipal Property Program was \$79,979 and \$289,054 at June 30, 2021 and 2020, respectively.

Arkansas Municipal League Municipal Vehicle Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 6: COMMITMENTS AND CONTINGENCIES

Management of the League does not estimate the Program's obligation for claims incurred and reported before year end that were paid after year end (claims payable) or claims incurred before year end but not reported until after year end, and this obligation may be significant to the Program's financial statements.

NOTE 7: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Program, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 8: SUBSEQUENT EVENTS

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments; however, at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they have on the Program's investments.



**Arkansas Municipal League
Municipal Property Program**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

Arkansas Municipal League Municipal Property Program

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Municipal Property Program Trust
North Little Rock, Arkansas

Program Administrator and Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinion

We have audited the modified cash basis financial statements of the **Municipal Property Program (the Program)**, which consist of the statements of assets, liabilities and net position – modified cash basis as of December 31, 2021 and 2020, and the statements of revenues, expenditures and changes in net position – modified cash basis for the years then ended, and the related notes to the financial statements. The Program is a benefit program managed by the Arkansas Municipal League (the League), subject to oversight by the members of the Board of Trustees of the Program.

In our opinion, the accompanying financial statements present fairly, in all material respects, the modified cash basis financial position of the Program as of December 31, 2021 and 2020, and the changes in its modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). 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 Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, when considered in the aggregate, that raise substantial doubt about the Program'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.

Members of the Board of Trustees
Municipal Property Program Trust

Program Administrator and Management
Arkansas Municipal League

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 U.S. GAAS 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Program'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 Program'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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Members of the Board of Trustees
Municipal Property Program Trust

Program Administrator and Management
Arkansas Municipal League

Emphasis of Matter – Reporting Entity

As disclosed in Note 1 to the financial statements, these financial statements present only balances and transactions that are directly attributable to the Program and are not intended present and do not present the financial position or results of operations of the League or any other benefit program managed by the League.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive script, and "PLC" is written in a more formal, slightly stylized font.

Little Rock, Arkansas
July 12, 2022

Financial Statements

Arkansas Municipal League Municipal Property Program

Statements of Assets, Liabilities and Net Position – Modified Cash Basis December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,877,598	\$ 199,705
Investments	4,242,379	4,633,430
Prepaid reinsurance premiums	2,399,467	1,905,019
Reinsurance proceeds receivable	1,774,506	4,336,059
Claim overpayment receivable	-	82,019
Due from Municipal Vehicle Program	-	8,000
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 13,293,950</u></u>	<u><u>\$ 11,164,232</u></u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Claim underpayment payable	<u>\$ 4,894</u>	<u>\$ 7,500</u>
	<u> </u>	<u> </u>
 Net Position	<u>13,289,056</u>	<u>11,156,732</u>
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 13,293,950</u></u>	<u><u>\$ 11,164,232</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League Municipal Property Program

Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUE		
Annual fees	\$ 8,437,822	\$ 5,804,495
OPERATING EXPENDITURES		
Claims:		
Claims paid, net	1,947,226	2,876,888
Adjustors' charges	192,295	162,539
Total claims	2,139,521	3,039,427
Service fee	393,506	387,017
Reserve fee	580,450	478,940
Reinsurance premiums	6,006,815	3,998,290
Other	70,536	217,537
Total Operating Expenditures	<u>9,190,828</u>	<u>8,121,211</u>
Operating Loss before Subsidies	(753,006)	(2,316,716)
SUBSIDIES		
Operating subsidy - reinsurance premiums	2,723,263	1,647,920
Net Operating Income (Loss)	<u>1,970,257</u>	<u>(668,796)</u>
NONOPERATING REVENUES (EXPENDITURES), NET		
Investment income	189,129	264,643
Investment fees	(27,062)	(16,977)
Total Nonoperating Revenues, Net	<u>162,067</u>	<u>247,666</u>
INCREASE (DECREASE) IN NET POSITION	2,132,324	(421,130)
NET POSITION, BEGINNING OF YEAR	<u>11,156,732</u>	<u>11,577,862</u>
NET POSITION, END OF YEAR	<u><u>\$ 13,289,056</u></u>	<u><u>\$ 11,156,732</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arkansas Municipal League (the League) is a voluntary group of Arkansas cities and towns, founded in 1934. The League provides a variety of services and benefits to its members, including legislative advocacy, risk management and benefit programs, training and educational opportunities and informational publications. The Municipal Property Program (the Program) was established by the League in October of 1985 as a risk sharing pool to cover losses related to property and equipment (excluding motor vehicles, mobile equipment and water vessels) owned and operated by participating municipalities, which include cities, towns and other governmental entities. The terms and conditions of the Program are set forth in the Program Brochure. During the years ended December 31, 2021 and 2020, the number of cities and towns participating in the Program totaled 375 and 369, respectively. Participating municipalities or the Program may terminate coverage by giving the other party 30 days' notice in writing.

The Executive Director of the League is designated as the Program Administrator, and the League provides all facilities, personnel and services necessary for the administration of the Program. The Program Administrator is required to conduct at least annually a meeting for all participating municipalities. The assets of the Program are segregated from the League's assets and the assets of other programs managed by the League, and the League is not responsible for any obligations incurred by the Program. In the event of termination of the Program, any assets remaining after all Program obligations are satisfied will be distributed to the participating municipalities on a pro-rata basis. Any termination and distribution of assets shall comply with federal and state laws.

The assets of the Program are held in the Municipal Property Program Trust, a self-funded risk management trust approved by the Executive Committee of the League (the Executive Committee) in November 2018.

These financial statements present only balances and transactions that are directly attributable to the Program and are not intended to present and do not present the financial position or results of operations of the League or any other benefit program or funds managed by the League.

Measurement Focus and Basis of Accounting

The Program is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services are financed or recovered primarily through user charges.

The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Program.

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Transactions of the Program are recorded in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, assets, liabilities, revenues and expenditures are recognized when cash is received or paid. Generally, non-cash transactions are not reported by the Program. Therefore, these financial statements do not report amounts receivable for annual fees due from participating municipalities or investment income earned but not received. Annual fees are recorded as revenue when collected, without regard to the coverage period to which they apply. In addition, these financial statements do not reflect liabilities or expenditures for goods or services received or for claims incurred before year end for which payment has not yet been made. Investments are reported at cost, rather than fair value. Expected reinsurance proceeds are reported in the period the related claims are paid. Reinsurance premiums are reported as expenditures during the period of coverage.

Basis of Presentation

Net position is categorized into amounts restricted and unrestricted, as applicable. As of December 31, 2021 and 2020, there were no restrictions on the net position of the Program.

Operating revenues and expenditures are distinguished from nonoperating revenues and expenditures for purposes of presentation on the statements of revenues, expenditures and changes in net position – modified cash basis. Operating revenues consist of annual fees collected from participating municipalities, and operating expenditures include costs related to payment of claims (net of reinsurance recoveries and subrogation/salvage proceeds), reinsurance premiums and other administrative costs. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to investing activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposit account maintained with a financial institution, undeposited receipts and equity in a pooled cash management account, which is a demand deposit account maintained with a financial institution by the League for the benefit of certain funds and benefit programs managed by the League.

Investments

To maximize investment opportunities and returns, the League pools the resources of certain funds and programs under its management in several internal investment pools, each of which has a different asset mix and investment strategy. An internal investment pool is an arrangement that commingles the moneys of more than one fund within one legal entity. The underlying investments that comprise the internal investment pools may include marketable equity securities, obligations of the U.S. government, obligations of U.S. government agencies and government-sponsored entities, mutual funds, exchange traded funds, alternative investments and investments in certain other debt securities, as approved by the Executive Committee.

Arkansas Municipal League Municipal Property Program

**Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Investments of the Program consist of ownership interests in these internal investment pools managed by the League. While the Program owns a participating interest in the pools, it does not own the underlying securities. Amounts invested by the Program in the internal investment pools are generally reported at cost on the statements of assets, liabilities and net position – modified cash basis. Net investment income (or loss) earned by the pools and certain investment fees are allocated to the Program and other pool participants on a pro-rata basis and are recorded as increases or decreases in the cost of the investment.

Annual Fees

Annual fees to participate in the Program are calculated based on property and equipment values specified by each participating municipality on the enumeration schedule and rates, which vary based on the Insurance Services Office Public Protection Classification Program Fire Suppression Rating applicable to the municipality. Rates are determined by the League, subject to approval by participating municipalities who attend the annual meeting. Annual fees are billed on each participating municipality's anniversary date and are recorded as revenue when collected, without regard to the coverage period to which they apply.

Claims Paid, Net

In the event of a loss, the participating municipality is required to give notice to the Program as soon as possible, but not more than ten (10) days after the loss. The amount of the claim paid is limited to the lesser of (1) what it would then cost to repair or replace the property or such part thereof with other of like kind and quality, or (2) the applicable limit of liability stated on the enumeration schedule. The Program may either pay for the loss or may repair the property at the agreed or appraised value. The amount of the claim will be reduced by the applicable deductible amount, which ranges from \$5,000 - \$10,000, unless the claim is related to a flood or earthquake, in which case the deductible is \$500,000 (ranged from \$250,000 - \$500,000, depending on flood zone, prior to December 1, 2020).

Claims paid are reported net of amounts recovered or to be recovered under the Program's reinsurance policy (see Note 3) and any subrogation or salvage proceeds. Reinsurance recoveries applicable to claims paid in 2021 and 2020 totaled \$1,917,596 and \$7,732,512 for the years ended December 31, 2021 and 2020, respectively, of which \$1,774,506 and \$4,336,059 had not been collected and are reported as receivables on the statements of assets, liabilities and net position – modified cash basis at December 31, 2021 and 2020, respectively. Proceeds from subrogation efforts and salvage collections totaled \$16,618 during the year ended December 31, 2020. There were no proceeds from subrogation efforts and salvage collections during the year ended December 31, 2021.

Tax Status

The Program is exempt from income taxes under Section 115 of the Internal Revenue Code.

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

At December 31, cash and cash equivalents include the following:

	<u>2021</u>	<u>2020</u>
Demand deposit account	\$ 3,856,067	\$ 1,396,856
Undeposited receipts	8,438	-
Equity (deficit) in pooled cash management account	<u>1,013,093</u>	<u>(1,197,151)</u>
	<u>\$ 4,877,598</u>	<u>\$ 199,705</u>

The Program's demand deposit account, the pooled cash management account and the demand deposit accounts of other funds and benefit programs managed by the League that are maintained at the same financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), and any balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institution and held in the name of the League. These collateral securities are maintained pursuant to the terms of collateral security custody agreements executed by the pledging financial institutions and the League and may not be released without the consent of the League.

Investments

The Executive Committee has created and appointed members of an investment subcommittee to establish investment guidelines, review and evaluate investment results, and make recommendations on investment matters pertaining to investing activities of the League and certain funds and benefit programs under management of the League. The Investment Policy Statement (the Policy), as amended, adopted by the League at the recommendation of the investment subcommittee sets forth basic investment objectives and philosophies. The requirements of the Policy are applied to the investment portfolio managed by the League for all funds and certain benefit programs managed by the League.

The Policy specifies that the primary investment objective is to earn the highest possible return consistent with prudent levels of risk. In general, the Policy sets forth limitations and guidelines on industry concentrations and investment ratings. With respect to equity securities, no single equity security may exceed 10% of the aggregate fair value of all securities in the account in which that equity security is held. In addition, concentrations in any one economic sector are limited to 30% of the aggregate fair value of all securities in that account. With respect to debt securities, a minimum credit rating of A3/A- is generally required, with certain exceptions. With the exception of securities that are

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

direct or guaranteed obligations of the U.S. government, concentrations with respect to any one issuer may not exceed 5% of the aggregate fair value of all securities in the account in which that debt security is held. Alternative investments are limited to 15% of the fair value of all the League's investments.

The table below provides detailed information about the internal investment pools in which the Program's assets are invested as of December 31, 2021 and 2020, including estimated fair values. Fair values of the underlying securities are determined by independent pricing sources. The fair values of debt securities are estimated using pricing models that consider various assumptions about interest rates, timing of cash flows and other market-related factors. The fair values of equity securities are based on unadjusted quoted prices for those securities in the active markets on which they are traded. The fair values of alternative investments are estimated based on the capital investment made by the League into those funds, adjusted for gains and losses and other highly subjective factors.

At December 31, the Program's ownership interest in each pool is as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity Securities				
Russell 3000 Account	\$ 649,993	\$ 2,647,536	\$ 649,993	\$ 2,105,597
Large Cap Growth Account	538,091	841,019	531,168	661,308
Wellington Management Accounts:				
Large Growth	502,965	779,678	527,205	813,604
Enduring Assets	512,063	614,334	492,069	538,927
International Quality Growth	307,387	470,291	304,421	427,819
Stephens Opportunistic Account	96,504	99,058	131,445	137,026
Debt Securities				
Passive Bond Market Account	265,749	314,551	265,749	332,118
Arkansas Bond Account	205,800	206,244	166,604	169,456
Stephens Opportunistic Account	636,465	653,308	618,315	644,567
Alternative Investments				
CapRocq Core Real Estate				
Fund L.P.	82,932	82,932	178,796	178,796
KKR Lending Partners, L.P.	31,478	31,478	26,106	26,106
Owl Rock Capital Corporation	412,952	385,391	412,952	344,565
Master limited partnerships	-	-	328,607	208,791
	<u>\$ 4,242,379</u>	<u>\$ 7,125,820</u>	<u>\$ 4,633,430</u>	<u>\$ 6,588,680</u>

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

More detailed information about the internal investment pools, investment policies and required custodial and credit risk disclosures is included in the League's audited financial statements and related footnotes, which can be obtained by contacting the Arkansas Municipal League, 301 West 2nd Street, North Little Rock, Arkansas 72114.

NOTE 3: REINSURANCE

In order to limit the Program's potential liability for large aggregate and individual losses, the Program insures a portion of its risk with commercial insurers through contractual agreements typically referred to as "reinsurance." The following table summarizes the Program's risk retention (deductible) and coverage limits in effect during the years ended December 31, 2021 and 2020:

Effective Dates	All Peril Deductible		Wind / Hail Deductible		Flood Deductible	
	Per Occurrence		Per Occurrence		Non Hazard	
	Per Occurrence Single Structure	Multiple Structures	Per Occurrence Single Structure	Multiple Structures	Zone	Hazard
7/1/19 - 6/30/20	\$ 500,000	\$ 1,750,000	\$ 500,000	\$ 1,750,000	\$ 250,000	\$ 500,000
7/1/20 - 6/30/21						
NLC Bottom layer	\$ 250,000	\$ 250,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Alliant	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$3,000,000	\$ 3,000,000
7/1/21 - 6/30/22						
NLC Bottom layer	\$ 250,000	\$ 250,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Alliant	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$3,000,000	\$ 3,000,000

Effective Dates	Coverage Limits			
			Flood Sublimit Per Occurrence	Flood Sublimit Per Occurrence in Hazard Zone
	Aggregate	Flood Aggregate		
7/1/19 - 6/30/20	\$ 500,000,000	\$ 50,000,000	\$ 10,000,000	\$ 5,000,000
7/1/20 - 6/30/21				
NLC Bottom layer	\$ 2,750,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Alliant	\$ 500,000,000	\$ 50,000,000	\$ 10,000,000	\$ 5,000,000
7/1/21 - 6/30/22				
NLC Bottom layer	\$ 2,750,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Alliant	\$ 500,000,000	\$ 50,000,000	\$ 10,000,000	\$ 5,000,000

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 3: REINSURANCE (Continued)

A contingent liability may exist in the event that any insurer is unable to meet its obligations specified under the reinsurance agreements. Reinsurance does not relieve the Program from its obligations to participating municipalities.

NOTE 4: TRANSACTIONS WITH THE LEAGUE

The League maintains a supplemental aggregate reserve (the Reserve Fund) to cover significant, extraordinary claims and other operational costs of the Program and other benefit programs managed by the League. Each benefit program covered by the Reserve Fund is assessed an annual reserve fee. For each of the years ended December 31, 2021 and 2020, the fee attributable to the Program was 10% of the previous year annual fees collected, payable in January.

The League charges a service fee to recover costs other than those related to payroll incurred in the administration of the Program and other benefit programs managed by the League. The service fee for the years ended December 31, 2021 and 2020, was 3% of the fair value of the Program's cash, cash equivalents, investments and reinsurance receivable on January 31, payable in February.

Property and equipment owned by the League is covered under the Program. Annual fees paid by the League for participation in the Program totaled \$30,236 and \$24,102 for the years ended December 31, 2021 and 2020, respectively. There were no claims paid by the Program related to losses incurred by the League during the years ended December 31, 2021 and 2020.

All or a portion of reinsurance premiums for the Program may be paid by the Reserve Fund, at the discretion of the Executive Committee. For the years ended December 31, 2021 and 2020, the Executive Committee approved that the Reserve Fund cover 50% of total reinsurance premiums. The portion of reinsurance premiums covered by the Reserve Fund is reported as operating subsidy – reinsurance premiums on the statements of revenues, expenditures and changes in net position – modified cash basis.

Certain employees of the League are dedicated to manage and conduct the day-to-day operations of both the Program and the Municipal Vehicle Program, which is another benefit program offered by the League. The actual costs incurred in performing duties specific to the Program or the Municipal Vehicle Program based on time and effort have not been measured. Historically, a portion of the personnel costs associated with these shared employees has been paid by the League's General Operating and Reserve Funds, reimbursed by the Municipal Vehicle Program, and these costs have been reported entirely in the financial statements of the Municipal Vehicle Program. Management has elected not to report any personnel costs in the Program's 2021 or 2020 financial statements, as such amounts cannot be reasonably estimated.

Arkansas Municipal League Municipal Property Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 4: TRANSACTIONS WITH THE LEAGUE (Continued)

Certain employees of the League perform accounting, legal and other administrative duties for the Program. Personnel costs associated with these employees are paid by the League's General Operating Fund and are not reported in the Program's financial statements as management of the League believes such amounts are not readily determinable, but would not be material to the Program's financial statements.

Beginning in 2020, all investment advisory service fees are paid by the Reserve Fund. Previously, these fees had been allocated to and paid by the League's Capital Reserve Fund, Reserve Fund and the benefit programs managed by the League. Investment advisory fees are paid to Stephens, Inc. and totaled \$532,059 and \$280,360 for the years ended December 31, 2021 and 2020, respectively.

NOTE 5: COMMITMENTS AND CONTINGENCIES

Management of the League does not estimate the Program's obligation for claims incurred and reported before year end that were paid after year end (claims payable) or claims incurred before year end but not reported until after year end, and this obligation may be significant to the Program's financial statements.

NOTE 6: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Program, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 7: SUBSEQUENT EVENTS

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments; at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they may have on the Program's investments.



**Arkansas Municipal League
Municipal League Workers' Compensation Program**

**Financial Statements
and
Supplementary Information
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

Arkansas Municipal League Municipal League Workers' Compensation Program

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Municipal League Workers' Compensation Program
North Little Rock, Arkansas

Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinion

We have audited the accompanying financial statements of the **Municipal League Workers' Compensation Program (the Program)**, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents. The Program is a benefit program managed by the Arkansas Municipal League (the League).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position and the changes in financial position and cash flows of the **Municipal League Workers' Compensation Program** as of and for the years ended December 31, 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). 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 Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 misstatement, 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 Program'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 U.S. GAAS 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Program'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 Program'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.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, these financial statements present only balances and transactions that are directly attributable to the Program and are not intended to present and do not present the financial position, results of operations or cash flows of the League or any other benefit program managed by the League.

Members of the Board of Trustees
Municipal League Workers' Compensation Program

Management
Arkansas Municipal League

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that claims development information, a schedule of the League's and the Program's proportionate share of the net pension liability and a schedule of the League's and the Program's contributions to the pension plan be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, as it is considered to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures we performed do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America also require that management's discussion and analysis be presented to supplement the financial statements. Management's discussion and analysis, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, as it is considered to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic or historical context. Management has elected to omit management's discussion and analysis. Our opinion on the financial statements is not affected by this omission.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Program's financial statements. The schedule of income, expenses and claims paid by fund year and the schedule of investments held during the year are presented for purposes of additional analysis, as required by the Arkansas Workers' Compensation Commission, and are not required parts of the financial statements. The information presented in these schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
May 4, 2022

Financial Statements

Arkansas Municipal League

Municipal League Workers' Compensation Program

Statements of Net Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 17,887,510	\$ 5,623,218
Investments	23,405,047	34,389,954
Accrued interest receivable	101,550	110,272
Total Current Assets	<u>41,394,107</u>	<u>40,123,444</u>
Restricted Assets		
Certificate of deposit	<u>3,100,000</u>	<u>3,100,000</u>
TOTAL ASSETS	<u>44,494,107</u>	<u>43,223,444</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow related to pensions	<u>107,863</u>	<u>180,029</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u><u>\$ 44,601,970</u></u>	<u><u>\$ 43,403,473</u></u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 398,327	\$ 384,085
Unearned premiums	1,449,922	1,634,861
Liability for unpaid claims and claims adjustment expenses	<u>13,135,679</u>	<u>11,040,216</u>
Total Current Liabilities	<u>14,983,928</u>	<u>13,059,162</u>
Long-term Liabilities		
Liability for unpaid claims and claim adjustment expenses	17,874,000	18,232,000
Net pension liability	<u>233,444</u>	<u>778,152</u>
Total Noncurrent Liabilities	<u>18,107,444</u>	<u>19,010,152</u>
TOTAL LIABILITIES	<u>33,091,372</u>	<u>32,069,314</u>
DEFERRED INFLOW OF RESOURCES		
Deferred inflow related to pensions	<u>428,336</u>	<u>22,415</u>
NET POSITION		
Restricted	3,100,000	3,100,000
Unrestricted	<u>7,982,262</u>	<u>8,211,744</u>
Total Net Position	<u>11,082,262</u>	<u>11,311,744</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u><u>\$ 44,601,970</u></u>	<u><u>\$ 43,403,473</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Premiums, net	\$ 13,454,362	\$ 12,716,305
OPERATING EXPENSES		
Claims paid	7,526,388	7,016,171
Increase (Decrease) in liability for unpaid claims and claims adjustment expenses	1,737,463	(790,518)
Service fee	1,033,592	946,850
Reserve fee	1,351,993	1,281,747
Premium tax	398,327	384,085
Personnel costs	933,669	828,457
Utilization review	398,241	210,785
Other	242,802	355,984
Total Operating Expenses	<u>13,622,475</u>	<u>10,233,561</u>
Operating (Loss) Income before Operating Subsidies	<u>(168,113)</u>	<u>2,482,744</u>
OPERATING SUBSIDIES		
Personnel costs	76,013	71,455
Excess claims	-	376,670
Total Operating Subsidies	<u>76,013</u>	<u>448,125</u>
Net Operating (Loss) Income	<u>(92,100)</u>	<u>2,930,869</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	487,128	644,806
Net (depreciation) appreciation in fair value of investments	(606,921)	834,494
Investment fees	(17,589)	(17,259)
Total Nonoperating (Expenses) Revenues, Net	<u>(137,382)</u>	<u>1,462,041</u>
CHANGE IN NET POSITION	(229,482)	4,392,910
NET POSITION, BEGINNING OF YEAR	<u>11,311,744</u>	<u>6,918,834</u>
NET POSITION, END OF YEAR	<u><u>\$ 11,082,262</u></u>	<u><u>\$ 11,311,744</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Statements of Cash Flows Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from		
Premiums, net	\$ 13,269,423	\$ 12,551,875
Operating subsidy - excess claims	-	376,670
Disbursements for		
Claims	7,526,388	7,016,171
Service fee	1,033,592	946,850
Reserve fee	1,351,993	1,281,747
Premium tax	384,085	362,844
Personnel costs	857,656	757,002
Utilization review	398,241	210,785
Other	309,423	386,938
Total Operating Disbursements	<u>11,861,378</u>	<u>10,962,337</u>
Net Cash Provided by Operating Activities	<u>1,408,045</u>	<u>1,966,208</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	23,334,782	32,777,971
Purchases of investments	(12,956,796)	(34,743,623)
Proceeds from maturity of certificate of deposit	3,100,000	3,100,000
Purchase of certificate of deposit	(3,100,000)	(3,100,000)
Investment income, net	495,850	666,009
Investment fees paid	(17,589)	(17,259)
Net Cash Provided (Used) by Investing Activities	<u>10,856,247</u>	<u>(1,316,902)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,264,292	649,306
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,623,218</u>	<u>4,973,912</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 17,887,510</u></u>	<u><u>\$ 5,623,218</u></u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating (loss) income	\$ (92,100)	\$ 2,930,869
Adjustments to reconcile net operating (loss) income to net cash provided by operating activities		
Change in operating assets and liabilities		
Accounts payable	14,242	21,241
Unearned premiums	(184,939)	(164,430)
Liability for unpaid claims and claims adjustment expenses	1,737,463	(790,519)
Net pension adjustments	(66,621)	(30,953)
Net Cash Provided by Operating Activities	<u><u>\$ 1,408,045</u></u>	<u><u>\$ 1,966,208</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipal League Workers' Compensation Program (the Program) commenced operations July 1, 1985. Members of the Program include Arkansas local governments, school districts and respective agencies of local governments and school districts (hereinafter referred to as "Employer Members") that have entered into an interlocal agreement to provide self-insured workers' compensation coverage and benefits to their employees. The Program is administered by a five member Board of Trustees (the Board) and will continue in perpetuity, unless terminated by the Board. The Program operates in compliance with Arkansas workers' compensation law and with related rules and regulations of the Arkansas Workers' Compensation Commission (AWCC). At December 31, 2021 and 2020, respectively, there were 614 and 617 Employer Members participating in the Program.

As permitted under the Bylaws of the Program, the Board has entered into an agreement for administrative services with the Arkansas Municipal League (the League). Pursuant to the terms of this agreement, the League is responsible for processing and paying workers' compensation claims, investing Program assets, implementing risk management and loss control programs, accounting and financial reporting and other activities necessary for the overall administration of the Program. The assets of the Program are segregated from assets of the League and other benefit programs managed by the League, and the League is not responsible for any obligations incurred by the Program or the participating Employer Members. In the event of dissolution of the Program, any assets remaining after all Program obligations are satisfied will be distributed to the Employer Members on a pro-rata basis. Any termination of the Program and distribution of assets shall comply with all federal and state laws, as well as the rules and regulations of the AWCC.

These financial statements present only balances and transactions that are directly attributable to the Program and are not intended to present and do not present the financial position, results of operations or cash flows of the League or any other benefit program managed by the League.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Program is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services are financed or recovered primarily through user charges. The financial statements of the Program are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, the objectives of which include the determination of operating income, changes in financial position and cash flows, all assets, deferred outflow (inflow) of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

The Program's net position is categorized into amounts restricted and unrestricted, as applicable.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Operating revenues and expenses are distinguished from non-operating revenues and expenses for purposes of presentation on the Program's statements of revenues, expenses and changes in net position. Operating revenues consist of premiums collected from Employer Members, and operating expenses include all costs related to the servicing of claims and administrative expenses. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposit account maintained with a financial institution, a government obligation money market mutual fund and equity in a pooled cash management account, which is a demand deposit account maintained with a financial institution by the League for the benefit of the League and certain benefit programs managed by the League.

Investments

The Program's investments are reported at fair value. U.S. GAAP require that the Program's investments be categorized according to a hierarchy that is based on valuation inputs used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. Detailed information about the Program's investments and related fair value levels is provided in Note 2.

Net realized and unrealized gains and losses are reported as net appreciation in fair value of investments in the statements of revenues, expenses and changes in net position. Investment income includes interest income received by the Program, adjusted for interest earned but not collected. Premiums and discounts are not amortized or accreted. Purchases and sales are recorded on a trade date basis.

Liability for Unpaid Claims and Claims Adjustment Expenses

The liability for unpaid claims and claims adjustment expenses is a significant estimate based on evaluations of individual claims by management and claims adjusters, an actuarial review of experience with respect to historical amounts of claims paid, and the probable amount and nature of claims arising from losses that have been incurred, but have not been reported, prior to the reporting date. The liability represents the estimated ultimate cost of settling the claims, including legal fees, the effects of inflation and other factors. Any adjustments resulting from the settlement of claims, changes in estimated settlement amounts or claims adjustment expenses resulting from management's continuous review process are reported in the financial statements at the time the adjustments are determined.

The liability for unpaid claims and claims adjustment expenses includes an estimate of unallocated loss adjustment expenses (ULAE). This estimate represents the expected cost of administrative expenses related to the processing and settlement of incurred claims if the Program were to discontinue operations at the end of the year.

Arkansas Municipal League Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Liability for Unpaid Claims and Claims Adjustment Expenses (Continued)

To develop an estimated ULAE, the Program's independent actuary determines the average cost per claim based on actual direct expenses incurred to process and pay claims and applies that to the number of unsettled claims outstanding as of the actuarial valuation date. The base ULAE cost per open claim was \$630 and \$610 as of December 31, 2021 and 2020, respectively, growing 5% and 6% per year thereafter as of December 31, 2021 and 2020, respectively.

Premiums, Net

Premiums are initially calculated and billed based on estimated payroll amounts reported by the Employer Members and rates established by the AWCC. Premiums are billed annually in October for coverage applicable to the following calendar year. Premiums are recognized as revenue during the period of coverage. Premium payments received in advance of the year to which they apply are reported as unearned premiums. Premiums are reported net of credits and discounts, which are extended at the discretion of the Board and are subject to change annually. Credits and discounts totaled \$290,857 and \$339,227 for the years ended December 31, 2021 and 2020, respectively.

Employer Members are required to submit final compensation reports by March 15 of the year following the year of coverage to enable management of the Program to recalculate premiums based on actual wages paid. At the discretion of the Board, any excess of premiums initially billed over recalculated premiums may be refunded to Employer Members, and any excess of recalculated premiums over premiums initially billed may be recovered from Employer Members. Any resulting receivable or payable amounts that are expected to be collected from or paid to Employer Members for underpayments or overpayments of premium are reported in the period to which the coverage applies. The Board elected not to recover or refund any differences between amounts actually billed and amounts that would have been billed using final wage numbers for the years ended December 31, 2021 and 2020.

Tax Status

The Program is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The most significant estimate affecting the Program's financial statements is the estimated liability for unpaid claims and claims adjustment expenses. This estimate is based on management's evaluation of currently known claims and claims adjustment expenses, historical trends and certain actuarial assumptions. It is likely that actual results could differ significantly from estimated amounts, and such differences could be material to the Program's financial statements.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS

Policy

The Program's deposits with financial institutions and investments are subject to the requirements of the *Group Surplus Investment Policy*, effective January 1, 2008, which has been approved by the AWCC. In addition, the Board has set forth specific deposit and investment requirements in an Investment Policy Statement, as amended (the Policy).

Cash and Cash Equivalents

At December 31, cash and cash equivalents include the following:

	2021	2020
Demand deposit account	\$ 1,451,696	\$ 1,250,092
Equity in pooled cash management account	5,102,120	3,884,712
Money market mutual fund	11,333,694	488,414
	<u>\$ 17,887,510</u>	<u>\$ 5,623,218</u>

The demand deposit account and the cash management account are insured by the Federal Deposit Insurance Corporation (FDIC), and any amounts exceeding FDIC insurance limits are fully collateralized by securities pledged by the financial institution that are held by the pledging financial institution's safekeeping agent in the League's name on behalf of the Program. At December 31, 2021 and 2020, all demand deposit and cash management account balances were fully insured by the FDIC and/or fully collateralized by the financial institution, thus mitigating any custodial credit risk, which is the risk that the Program will not recover balances on deposit in the event of financial institution failure. The money market mutual fund is an open-ended mutual fund rated AAA-mf at December 31, 2021 and 2020 that invests primarily in U.S. Treasury securities and repurchase agreements solely with the Federal Reserve Bank of New York, collateralized by U.S. Treasury obligations. Open-ended mutual funds are not subject to custodial credit risk.

Investments

The Program may invest in direct obligations of the state of Arkansas, municipal entities located within the state of Arkansas, the U.S. Treasury and U.S. agency and government-sponsored entities. The Program may also invest in U.S. dollar denominated deposit accounts, federal funds, bankers' acceptances, commercial paper, money market mutual funds, general obligation municipal bonds of Arkansas cities and corporate bonds, subject to minimum credit rating requirements, maximum maturity limitations and portfolio concentration restrictions, as specified in the Policy. All of the Program's investments are held by an agent of the League in the name of the League on behalf of the Program.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of December 31, 2021 and 2020, the Program's investment portfolio is composed of the following (excluding money market mutual funds, which are classified as cash and cash equivalents for purposes of financial reporting):

	2021		
	Fair Value	Weighted Average Life (Years) ⁽¹⁾	Credit Rating
U.S. Treasury obligations	\$ 11,526,322	3.75	Aaa
U.S. agency and government-sponsored entity obligations	4,222,470	5.04	Aaa
Corporate notes and bonds	7,656,255	2.74	Aa1 to A3
	<u>\$ 23,405,047</u>		

	2020		
	Fair Value	Weighted Average Life (Years) ⁽¹⁾	Credit Rating
U.S. Treasury obligations	\$ 18,629,548	2.06	Aaa
U.S. agency and government-sponsored entity obligations	7,809,588	3.69	Aaa
Corporate notes and bonds	7,950,818	3.87	Aa1 to A3
	<u>\$ 34,389,954</u>		

⁽¹⁾ Includes the likely impact of call features.

Investment Valuation

The following is a description of the valuation methodologies used to determine the fair values of investments. There have been no changes in the methodologies used at December 31, 2021 and 2020.

The fair value of the money market mutual fund is based on the net asset value per share of the fund as of the close of business on the reporting date. U.S. Treasury and U.S. agency and government-sponsored entity obligations are valued based on reported settled trades. Fair values of corporate notes and bonds are determined by an independent pricing service using industry accepted pricing models and observable inputs that vary based on the type of bonds.

Arkansas Municipal League Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investment Valuation (Continued)

The following table sets forth by level, within the fair value hierarchy described in Note 1, the Program's investments as of December 31, 2021.

Type	2021			
	Fair Value	Level 1	Level 2	Level 3
Classified as Cash and Cash Equivalents				
Money market mutual fund	\$ 11,333,694	\$ 11,333,694	\$ -	\$ -
Classified as Investments				
U.S. Treasury obligations	\$ 11,526,322	\$ 11,526,322	\$ -	\$ -
U.S. agency and government-sponsored entity obligations	4,222,470	4,222,470	-	-
Corporate notes and bonds	7,656,255	-	7,656,255	-
	<u>\$ 23,405,047</u>	<u>\$ 15,748,792</u>	<u>\$ 7,656,255</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Program's investments as of December 31, 2020.

Type	2020			
	Fair Value	Level 1	Level 2	Level 3
Classified as Cash and Cash Equivalents				
Money market mutual fund	\$ 488,414	\$ 488,414	\$ -	\$ -
Classified as Investments				
U.S. Treasury obligations	\$ 18,629,548	\$ 18,629,548	\$ -	\$ -
U.S. agency and government-sponsored entity obligations	7,809,588	7,809,588	-	-
Corporate notes and bonds	7,950,818	-	7,950,818	-
	<u>\$ 34,389,954</u>	<u>\$ 26,439,136</u>	<u>\$ 7,950,818</u>	<u>\$ -</u>

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the Policy, the Program manages its exposure to declines in fair values by limiting the duration to worst of the investment portfolio to five years. The duration to worst is the aggregate duration of all bonds in the portfolio computed using nearest call dates or maturity dates, whichever is scheduled to occur first. In addition, the Policy limits the actual maturity of any investment to fifteen years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the Policy, the Program manages its exposure to credit risk by limiting debt securities to those that are direct obligations of the U.S. government or U.S. government agency and government-sponsored entities, limiting corporate obligations to those that carry a minimum credit rating of A2/A at the time of initial purchase and limiting direct obligations of the state of Arkansas and municipal entities located within the state of Arkansas to those that carry a minimum credit rating of A2/A. Generally, a maximum of 25% of the investment portfolio (determined based on the fair value of the portfolio at the time of purchase) may be invested in corporate bonds, municipal bonds and commercial paper on a combined basis. The Policy does not limit the amount of investment in obligations of any one issuer.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of investments that are in the possession of an outside party. All investments are held by an agent of the League in the name of the League on behalf of the Program.

NOTE 3: RESTRICTED ASSETS

The Program has pledged and assigned a certificate of deposit to the AWCC in the amount of \$3,100,000 at December 31, 2021 and 2020, in order to satisfy the statutory reserve requirements of the AWCC. The balance is fully collateralized by securities pledged by the issuing financial institution. The collateral securities are held by an agent of the League in the name of the League and may not be released without consent of the League. This certificate of deposit matures annually on December 31 but will automatically renew unless the issuing financial institution is otherwise notified.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements **December 31, 2021 and 2020**

NOTE 4: TRANSACTIONS WITH THE LEAGUE

The League maintains a supplemental aggregate reserve (the Reserve Fund) to cover significant, extraordinary claims of the Program and other benefit programs managed by the League, as well as certain operational costs. Each benefit program covered by the Reserve Fund is assessed an annual reserve fee. The reserve fee attributable to the Program during 2021 and 2020 was equal to 10% of expected annual premiums in the previous year, payable in March.

The League charges a service fee to recover costs other than those related to payroll incurred in the administration of the Program. The fee in 2021 and 2020 was equal to 2% of the fair value of the Program's cash and investments as of February 28, payable in March.

The Program reimburses the League for a portion of personnel costs attributable to employees of the League who are directly involved in the administration of the Program. These reimbursements totaled \$1,000,290 and \$787,955 during the years ended December 31, 2021 and 2020, respectively. In addition, a portion of personnel costs attributable to certain employees of the League who are directly involved in the administration of the Program are paid directly from the League's General Operating and Reserve Funds and are not reimbursed by the Program. Amounts paid by the League's General Operating and Reserve Funds are subject to change annually at the discretion of the League's Executive Committee. These amounts, which totaled \$76,013 and \$71,455 during the years ended December 31, 2021 and 2020, respectively, are reported in the Program's financial statements as operating subsidies - personnel costs.

Beginning in 2020, all investment advisory services fees are paid by the Reserve Fund.

Certain employees of the League perform accounting, legal and other administrative duties for the Program. Personnel costs associated with these employees are paid by the League's General Operating Fund and are not reported in the Program's financial statements as management of the League believes such amounts are not readily determinable and would not be material to the Program's financial statements.

During the year ended December 31, 2020, the Executive Committee of the League voted that the Reserve Fund would reimburse the Program for amounts paid in excess of \$600,000 on individual claims paid during the period from July 1, 2019 through June 30, 2020. During the year ended December 31, 2020, the Program received \$376,670 from the Reserve Fund for claims in excess of \$600,000.

Employees of the League are insured through the Program. Premiums paid by the League to the Program totaled \$13,597 and \$12,318 for the years ended December 31, 2021 and 2020, respectively.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 5: LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

As disclosed in Note 1, the Program establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Program as of and for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Liability for unpaid claims and claims adjustment expenses at beginning of year	\$ 29,272,216	\$ 30,062,735
Incurring claims and claims adjustment expenses:		
Provision for insured events of the current year	11,541,766	9,097,884
Decrease in provision for insured events of prior years	<u>(2,277,915)</u>	<u>(2,872,232)</u>
Total incurred claims and claim adjustment expenses	<u>38,536,067</u>	<u>36,288,387</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	\$ 3,511,488	\$ 2,353,491
Claims and claims adjustment expenses attributable to insured events of prior years	<u>4,014,900</u>	<u>4,662,680</u>
	<u>7,526,388</u>	<u>7,016,171</u>
	<u>\$ 31,009,679</u>	<u>\$ 29,272,216</u>
Liability for unpaid claims and claims adjustment expenses at end of year:		
Current portion	\$ 13,135,679	\$ 11,040,216
Long-term portion	<u>17,874,000</u>	<u>18,232,000</u>
	<u>\$ 31,009,679</u>	<u>\$ 29,272,216</u>

NOTE 6: CONTINGENCIES

The Program is, by nature, the subject of a variety of claims on a continuing basis. Management intends to contest or deny claims that are not allowable under relevant laws and regulations. Additional losses in excess of the liability for unpaid claims and claims adjustment expenses are possible; however, the amount of additional losses, if any, cannot be reasonably estimated. Accordingly, no provision for such additional losses has been made in the accompanying financial statements.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements **December 31, 2021 and 2020**

NOTE 7: PENSIONS

Plan Description

Employees of the League who meet certain eligibility requirements participate in Arkansas Public Employees Retirement System (APERS), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature (the Plan). APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan participants and beneficiaries. Plan participants are fully vested in benefits provided under APERS upon reaching five years of service. Benefits, which are established and amended by state statute, are calculated on the basis of age, final average salary, years of service and a benefit factor.

Contributions

Plan participants hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and participating employers are required to contribute a percent of covered salary at an actuarially determined rate, as approved by the APERS Board of Trustees. The employer contribution rate was 15.32% from January 1, 2020 through December 31, 2021. The League's total contributions for the Plan years ended June 30, 2021 and 2020, for all covered employees were \$1,033,245 and \$957,885, respectively, which were equal to the required contributions. Contributions made by the League to APERS for employees directly involved in management and operation of the Program were \$92,889 and \$81,229 for the Plan years ended June 30, 2021 and 2020, respectively.

Net Pension Liability

At December 31, 2021 and 2020, the League's proportionate share of the total net pension liability of APERS was \$2,596,707 and \$9,176,320, respectively. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. The League's proportionate share of the net pension liability was based on a projection of the League's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2021 and 2020, the League's proportionate share of APERS total net pension liability was 0.34% and 0.32%, respectively. The Program's proportionate share of APERS total net pension liability was 0.03% at June 30, 2021 and 2020, resulting in a net pension liability of \$233,444 and \$778,152, respectively. These amounts are reported as a long-term liabilities on the Program's statements of net position at December 31, 2021 and 2020.

Pension Expense, Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions

During the years ended June 30, 2021 and 2020, the League's proportionate share of pension plan (credit) expense attributable to all participating employer entities was \$(92,417) and \$1,689,454, respectively. The proportionate share of pension plan (credit) expense for employees directly involved in management and operation of the Program was \$(8,308) and \$143,266 for the years ended June 30, 2021 and 2020, respectively. These amounts are included in personnel costs in the Program's statements of revenues, expenses and changes in net position.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7: PENSIONS (Continued)

Pension Expense, Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions (Continued)

The League's deferred outflow of resources at December 31, 2021 and 2020, is attributable to the following:

	League	
	2021	2020
Changes of assumptions	\$ -	\$ 114,972
Differences between expected and actual experience	59,430	121,818
Net difference between projected and actual investment earnings on pension plan investments	-	970,971
Changes in proportion and differences between employer contributions and proportionate share of contributions	602,074	407,439
League contributions subsequent to the measurement date	538,315	507,789
Total deferred outflow of resources	<u>\$ 1,199,819</u>	<u>\$ 2,122,989</u>

At December 31, 2021 and 2020, the Program's statements of net position report an allocation of the League's deferred outflow of resources related to pensions from the following:

	Program	
	2021	2020
Changes of assumptions	\$ -	\$ 9,750
Differences between expected and actual experience	5,343	10,330
Difference between projected and actual investment earnings on pension plan investments	-	82,338
Changes in proportion and differences between employer contributions and proportionate share of contributions	54,125	34,550
League contributions subsequent to the measurement date	48,395	43,061
Total deferred outflow of resources	<u>\$ 107,863</u>	<u>\$ 180,029</u>

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 7: PENSIONS (Continued)

Pension Expense, Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions (Continued)

The League's deferred inflow of resources at December 31, 2021 and 2020, is attributable to the following:

	League	
	2021	2020
Changes of assumptions	\$ 18,189	\$ 157,224
Differences between expected and actual experience	166,537	6,077
Net difference between projected and actual investment earnings on pension plan investments	4,558,104	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	21,762	101,038
Total deferred inflow of resources	<u>\$ 4,764,592</u>	<u>\$ 264,339</u>

At December 31, 2021 and 2020, the Program's statements of net position report an allocation of the League's deferred inflow of resources related to pensions from the following:

	Program	
	2021	2020
Changes of assumptions	\$ 1,635	\$ 13,333
Differences between expected and actual experience	14,972	515
Net difference between projected and actual investment earnings on pension plan investments	409,773	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,956	8,567
Total deferred inflow of resources	<u>\$ 428,336</u>	<u>\$ 22,415</u>

The deferred outflow of resources resulting from contributions made subsequent to the measurement dates (June 30, 2021 and 2020) totaling \$538,315 and \$507,789 for the League and \$48,395 and \$43,061 for the Program is recognized as a reduction of the net pension liability during the years ended December 31, 2021 and 2020, respectively.

Arkansas Municipal League Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 7: PENSIONS (Continued)

Pension Expense, Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflow of resources and deferred inflow of resources will be recognized in pension expense as follows:

	<u>League</u>	<u>Program</u>
Year ending December 31,		
2022	\$ 919,315	\$ 82,646
2023	779,783	70,102
2024	1,020,745	91,765
2025	1,383,245	124,355
Thereafter	-	-

Actuarial Assumptions

The total net pension liability in the June 30, 2021 and 2020 actuarial valuations was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.25 - 9.85% including inflation
Investment rate of return	7.15% ⁽¹⁾

⁽¹⁾ Net of investment and administrative expenses.

Mortality rates in the June 30, 2021 and 2020 actuarial valuation were based on the RP-2006 healthy annuitant benefit weighted generational mortality tables for males and females, adjusted for fully generational mortality improvements using Scale MP-2017.

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 asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7: PENSIONS (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the APERS target asset allocation as of June 30, 2021 and 2020, are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	37%	6.22%
International equity	24%	6.69%
Real assets	16%	4.81%
Absolute return	5%	3.05%
Domestic fixed	18%	0.57%
Total	<u>100%</u>	

Changes in Net Pension Liability

The following table shows changes in the League's net pension liability during the Plan year ended June 30, 2021:

	<u>League Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at July 1, 2020	\$ 35,705,732	\$ 26,529,412	\$ 9,176,320
Changes in the year:			
Service cost	676,067	-	676,067
Interest on the total pension liability	2,757,968	-	2,757,968
Changes in benefits terms	(18,256)	-	(18,256)
Differences between expected and actual experience	(221,715)	-	(221,715)
Contributions from the employer	-	1,033,245	(1,033,245)
Contributions from employees	-	251,145	(251,145)
Net investment income	-	9,003,738	(9,003,738)
Benefit payments, including refunds of employee contributions	(2,107,562)	(2,107,562)	-
Administrative expense	-	(39,328)	39,328
Other	495,349	20,226	475,123
Net changes	<u>1,581,851</u>	<u>8,161,464</u>	<u>(6,579,613)</u>
Balance at June 30, 2021	<u>\$ 37,287,583</u>	<u>\$ 34,690,876</u>	<u>\$ 2,596,707</u>

Arkansas Municipal League Municipal League Workers' Compensation Program

Notes to Financial Statements December 31, 2021 and 2020

NOTE 7: PENSIONS (Continued)

Change is in Net Pension Liability (Continued)

The following table shows the Program's changes in the net pension liability for the Plan year during the year ended June 30, 2021:

	Program Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at July 1, 2020	\$ 3,378,462	\$ 2,600,310	\$ 778,152
Changes in the year:			
Service cost	60,778	-	60,778
Interest on the total pension liability	247,941	-	247,941
Changes in benefits terms	(1,641)	-	(1,641)
Differences between expected and actual experience	(19,932)	-	(19,932)
Contributions from the employer	-	92,889	(92,889)
Contributions from employees	-	22,578	(22,578)
Net investment income	-	809,436	(809,436)
Benefit payments, including refunds of employee contributions	(189,470)	(189,470)	-
Administrative expense	-	(3,536)	3,536
Other	91,330	1,817	89,513
Net changes	<u>189,006</u>	<u>733,714</u>	<u>(544,708)</u>
Balance at June 30, 2021	<u>\$ 3,567,468</u>	<u>\$ 3,334,024</u>	<u>\$ 233,444</u>

Discount Rate

The discount rate used by APERS to measure the total pension liability at June 30, 2021 and 2020 was 7.15%. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7: PENSIONS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the 2021 net pension liability calculated using the discount rate of 7.15%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	<u>Discount Rate</u>	<u>League</u>	<u>Program</u>
1% decrease	6.15%	\$ 7,767,775	\$ 698,323
Current discount rate	7.15%	\$ 2,596,707	\$ 233,444
1% increase	8.15%	\$ (1,673,850)	\$ (150,479)

Plan Information

Detailed information about the APERS Plan's fiduciary net position is available in the separately issued APERS Plan financial report, which may be obtained by making a written request at 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

For purposes of measuring the net pension liability, pension expense, and related deferred outflow and inflow of resources related to pensions, information about the fiduciary net pension of APERS and additions to/deductions from APERS fiduciary net position has been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 8: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Program, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 9: SUBSEQUENT EVENT

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments. At this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they may have on the Program's investments.

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Required Supplementary Information

Arkansas Municipal League

Municipal League Workers' Compensation Program

Required Supplementary Information Claims Development Information For the Years Ended December 31, 2012 through December 31, 2021 (In thousands)

	December 31			
	2012	2013	2014	2015
1. Premiums earned and investment income, net of excess reserve fees, premiums refunds and investment expenses:				
Earned	\$ 13,188	\$ 13,509	\$ 15,034	\$ 14,880
Excess reserve fee	1,282	1,357	1,441	1,486
Net earned	<u>\$ 11,906</u>	<u>\$ 12,152</u>	<u>\$ 13,593</u>	<u>\$ 13,394</u>
2. Unallocated expenses	<u>\$ 3,084</u>	<u>\$ 3,278</u>	<u>\$ 3,238</u>	<u>\$ 3,194</u>
3. Estimated incurred claims and expenses, end of policy year	<u>\$ 7,964</u>	<u>\$ 6,898</u>	<u>\$ 6,508</u>	<u>\$ 10,676</u>
4. Paid (cumulative) as of:				
End of policy year	\$ 2,819	\$ 3,147	\$ 3,020	\$ 3,919
One year later	\$ 4,837	\$ 5,326	\$ 4,909	\$ 6,987
Two years later	\$ 5,841	\$ 6,080	\$ 5,727	\$ 8,110
Three years later	\$ 6,376	\$ 6,528	\$ 5,967	\$ 8,873
Four years later	\$ 6,611	\$ 6,610	\$ 6,166	\$ 10,374
Five years later	\$ 6,984	\$ 6,690	\$ 6,477	\$ 10,237
Six years later	\$ 7,154	\$ 6,857	\$ 6,267	<u>\$ 10,303</u>
Seven years later	\$ 7,480	\$ 6,814	<u>\$ 6,308</u>	
Eight years later	\$ 7,426	<u>\$ 6,833</u>		
Nine years later	<u>\$ 7,511</u>			
5. Reestimated incurred claims and expense:				
End of policy year	\$ 5,125	\$ 5,211	\$ 5,323	\$ 7,048
One year later	\$ 5,895	\$ 6,373	\$ 6,021	\$ 8,461
Two years later	\$ 6,663	\$ 6,586	\$ 6,184	\$ 9,704
Three years later	\$ 7,046	\$ 6,800	\$ 6,302	\$ 10,283
Four years later	\$ 7,067	\$ 6,781	\$ 6,486	\$ 9,610
Five years later	\$ 7,357	\$ 6,792	\$ 6,220	\$ 10,621
Six years later	\$ 7,466	\$ 6,720	\$ 6,508	<u>\$ 10,676</u>
Seven years later	\$ 7,289	\$ 6,899	<u>\$ 6,508</u>	
Eight years later	\$ 7,764	<u>\$ 6,898</u>		
Nine years later	<u>\$ 7,964</u>			
(Increase) decrease in estimated incurred claims and expense from end of policy year	<u>\$ 2,839</u>	<u>\$ 1,687</u>	<u>\$ 1,185</u>	<u>\$ 3,628</u>

(Continued)

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Required Supplementary Information
Claims Development Information *(Continued)*
For the Years Ended December 31, 2012 through December 31, 2021
(In thousands)

December 31					
2016	2017	2018	2019	2020	2021
\$ 15,395	\$ 15,018	\$ 13,670	\$ 13,303	\$ 14,178	\$ 13,317
1,439	1,441	1,327	1,202	1,282	1,352
<u>\$ 13,956</u>	<u>\$ 13,577</u>	<u>\$ 12,343</u>	<u>\$ 12,101</u>	<u>\$ 12,896</u>	<u>\$ 11,965</u>
<u>\$ 3,095</u>	<u>\$ 3,545</u>	<u>\$ 3,154</u>	<u>\$ 2,981</u>	<u>\$ 2,726</u>	<u>\$ 3,007</u>
<u>\$ 8,386</u>	<u>\$ 6,625</u>	<u>\$ 4,550</u>	<u>\$ 6,764</u>	<u>\$ 6,635</u>	<u>\$ 7,454</u>
\$ 2,622	\$ 2,745	\$ 2,552	\$ 6,531	\$ 2,353	<u>\$ 3,511</u>
\$ 5,086	\$ 4,726	\$ 4,527	\$ 4,428	<u>\$ 4,479</u>	
\$ 6,503	\$ 6,065	\$ 4,153	<u>\$ 4,883</u>		
\$ 8,317	\$ 5,556	<u>\$ 4,232</u>			
\$ 7,374	<u>\$ 5,814</u>				
<u>\$ 7,568</u>					
\$ 5,650	\$ 6,279	\$ 4,230	\$ 2,677	\$ 5,579	<u>\$ 7,454</u>
\$ 6,720	\$ 5,824	\$ 3,792	\$ 6,848	<u>\$ 6,635</u>	
\$ 7,535	\$ 5,204	\$ 4,682	<u>\$ 6,764</u>		
\$ 7,004	\$ 6,316	<u>\$ 4,550</u>			
\$ 8,292	<u>\$ 6,625</u>				
<u>\$ 8,386</u>					
<u>\$ 2,736</u>	<u>\$ 346</u>	<u>\$ 320</u>	<u>\$ 4,087</u>	<u>\$ 1,056</u>	<u>\$ -</u>

See Independent Auditor's Report.

Arkansas Municipal League Municipal League Workers' Compensation Program

Required Supplementary Information Schedule of Proportionate Share of the Net Pension Liability For the Plan Years Ended June 30, 2015 through June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
LEAGUE							
Proportionate share of the net pension liability (percentage)	0.34%	0.32%	0.30%	0.30%	0.31%	0.33%	0.29%
Proportionate share of the net pension liability (dollars)	\$ 2,596,707	\$ 9,176,320	\$ 7,171,264	\$ 6,627,850	\$ 7,885,196	\$ 7,879,379	\$ 5,258,812
Covered-employee payroll	\$ 6,757,990	\$ 6,267,743	\$ 5,754,891	\$ 5,656,548	\$ 5,515,805	\$ 5,972,434	\$ 5,121,520
Proportionate share of the net pension liability as a percentage of covered-employee payroll	38%	146%	125%	117%	143%	132%	103%
Plan fiduciary net position as a percentage of the total pension liability	94%	75%	79%	80%	76%	76%	80%
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROGRAM							
Proportionate share of the net pension liability (percentage)	0.03%	0.03%	0.03%	0.03%	0.03%	0.04%	0.04%
Proportionate share of the net pension liability (dollars)	\$ 233,444	\$ 778,152	\$ 705,652	\$ 649,529	\$ 889,056	\$ 898,249	\$ 727,819
Covered-employee payroll	\$ 607,803	\$ 531,651	\$ 566,102	\$ 554,350	\$ 621,915	\$ 680,649	\$ 708,568
Proportionate share of the net pension liability as a percentage of covered-employee payroll	38%	146%	125%	117%	143%	132%	103%
Plan fiduciary net position as a percentage of the total pension liability	94%	75%	80%	80%	76%	76%	80%

GASB Statement No. 68 was implemented in 2015, therefore only seven years of information are shown.

See Independent Auditor's Report.

Arkansas Municipal League Municipal League Workers' Compensation Program

Required Supplementary Information Schedule of Contributions to Arkansas Public Employees Retirement System For the Plan Years Ended June 30, 2015 through June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
LEAGUE							
Required contributions	\$ 1,033,245	\$ 957,885	\$ 871,451	\$ 830,105	\$ 797,431	\$ 870,580	\$ 783,228
Contributions in relation to the required contribution	<u>1,033,245</u>	<u>957,885</u>	<u>871,451</u>	<u>830,105</u>	<u>797,431</u>	<u>870,580</u>	<u>783,228</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 6,757,990</u>	<u>\$ 6,267,743</u>	<u>\$ 5,754,891</u>	<u>\$ 5,656,548</u>	<u>\$ 5,515,805</u>	<u>\$ 5,972,434</u>	<u>\$ 5,121,520</u>
Contribution as a percentage of covered-employee payroll	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>14%</u>	<u>15%</u>	<u>15%</u>
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROGRAM							
Required contributions	\$ 92,889	\$ 81,229	\$ 85,751	\$ 81,350	\$ 89,910	\$ 99,246	\$ 108,399
Contributions in relation to the required contribution	<u>92,889</u>	<u>81,229</u>	<u>85,751</u>	<u>81,350</u>	<u>89,910</u>	<u>99,246</u>	<u>108,399</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 607,803</u>	<u>\$ 531,651</u>	<u>\$ 566,102</u>	<u>\$ 554,350</u>	<u>\$ 621,915</u>	<u>\$ 680,649</u>	<u>\$ 708,568</u>
Contribution as a percentage of covered-employee payroll	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>14%</u>	<u>15%</u>	<u>15%</u>

GASB Statement No. 68 was implemented in 2015, therefore only seven years of information are shown.

See Independent Auditor's Report.

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Other Supplementary Information

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

	Cumulative	December 31			
	Total	2021	2020	2019	2018
INCOME					
Premiums earned to date	\$ 341,224,295	\$ 13,454,362	\$ 12,716,305	\$ 11,894,019	\$ 13,275,063
Investment income	36,543,117	(119,793)	1,479,300	1,504,305	489,906
Operating transfers	1,868,280	76,013	448,125	193,128	13,880
Other income	551	-	-	-	-
Total Income	<u>379,636,243</u>	<u>13,410,582</u>	<u>14,643,730</u>	<u>13,591,452</u>	<u>13,778,849</u>
CHARGES TO FUND					
Claims paid to date:					
Gross incurred claims	228,255,029	3,511,491	4,478,511	4,882,742	4,232,087
Less excess over retention	637,858	-	-	-	-
Net Claims Paid	<u>227,617,171</u>	<u>3,511,491</u>	<u>4,478,511</u>	<u>4,882,742</u>	<u>4,232,087</u>
Reserves on open claims	13,135,679	3,942,281	2,156,472	1,881,147	318,186
Actuary reserves	17,874,000	4,088,000	1,894,000	1,153,000	1,160,000
Excess reserve fee/reinsurance	29,787,654	1,351,993	1,281,915	1,201,735	1,327,288
Service fee	28,279,487	1,033,592	946,850	899,608	885,437
Operating expenses	51,246,439	1,990,628	1,796,570	2,176,248	2,363,614
Pension adjustment	613,551	-	-	-	-
Total Charges to Fund	<u>368,553,981</u>	<u>15,917,985</u>	<u>12,554,318</u>	<u>12,194,480</u>	<u>10,286,612</u>
SURPLUS (DEFICIT)	<u>\$ 11,082,262</u>	<u>\$ (2,507,403)</u>	<u>\$ 2,089,412</u>	<u>\$ 1,396,972</u>	<u>\$ 3,492,237</u>

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

December 31					
2017	2016	2015	2014	2013	2012
\$ 14,687,694	\$ 15,098,692	\$ 14,581,100	\$ 14,420,173	\$ 13,632,300	\$ 12,754,567
452,624	362,530	350,295	624,119	(117,848)	437,335
91,301	144,102	497,926	122,661	120,993	160,151
-	-	-	-	-	-
<u>15,231,619</u>	<u>15,605,324</u>	<u>15,429,321</u>	<u>15,166,953</u>	<u>13,635,445</u>	<u>13,352,053</u>
5,814,116	7,567,970	10,302,906	6,308,230	6,833,031	7,510,294
-	-	-	-	-	-
5,814,116	7,567,970	10,302,906	6,308,230	6,833,031	7,510,294
810,836	818,337	372,729	199,975	64,531	453,988
957,000	1,050,000	1,519,000	774,000	822,000	502,000
1,441,164	1,439,268	1,486,429	1,441,409	1,356,928	1,281,676
1,058,022	962,771	954,930	925,602	852,067	769,546
2,608,829	2,198,483	2,290,391	2,322,699	2,271,663	2,318,144
-	-	613,551	-	-	-
<u>12,689,967</u>	<u>14,036,829</u>	<u>17,539,936</u>	<u>11,971,915</u>	<u>12,200,220</u>	<u>12,835,648</u>
<u>\$ 2,541,652</u>	<u>\$ 1,568,495</u>	<u>\$ (2,110,615)</u>	<u>\$ 3,195,038</u>	<u>\$ 1,435,225</u>	<u>\$ 516,405</u>

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

	December 31				
	2011	2010	2009	2008	2007
INCOME					
Premiums earned to date	\$ 13,516,035	\$ 9,518,841	\$ 11,018,862	\$ 13,427,364	\$ 13,008,714
Investment income	783,684	884,687	526,135	2,328,115	2,670,812
Operating transfers	-	-	-	-	-
Other income	-	-	-	-	-
Total Income	<u>14,299,719</u>	<u>10,403,528</u>	<u>11,544,997</u>	<u>15,755,479</u>	<u>15,679,526</u>
CHARGES TO FUND					
Claims paid to date:					
Gross incurred claims	8,015,064	8,966,400	10,772,547	8,425,605	8,014,995
Less excess over retention	-	-	-	-	-
Net Claims Paid	<u>8,015,064</u>	<u>8,966,400</u>	<u>10,772,547</u>	<u>8,425,605</u>	<u>8,014,995</u>
Reserves on open claims	270,915	77,141	281,649	119,502	255,355
Actuary reserves	571,000	569,000	282,000	463,000	236,000
Excess reserve fee/reinsurance	1,355,801	958,406	1,093,933	1,250,250	1,215,881
Service fee	745,005	1,138,066	1,148,784	1,151,442	1,068,282
Operating expenses	2,242,481	2,251,684	1,999,360	2,047,331	1,709,595
Pension adjustment	-	-	-	-	-
Total Charges to Fund	<u>13,200,266</u>	<u>13,960,697</u>	<u>15,578,273</u>	<u>13,457,130</u>	<u>12,500,108</u>
SURPLUS (DEFICIT)	<u>\$ 1,099,453</u>	<u>\$ (3,557,169)</u>	<u>\$ (4,033,276)</u>	<u>\$ 2,298,349</u>	<u>\$ 3,179,418</u>

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

December 31				
2006	2005	2004	2003	2002
\$ 10,796,169	\$ 10,027,877	\$ 9,214,148	\$ 8,311,366	\$ 4,191,077
1,249,671	485,991	485,236	773,528	1,429,549
-	-	-	-	-
-	240	-	-	-
<u>12,045,840</u>	<u>10,514,108</u>	<u>9,699,384</u>	<u>9,084,894</u>	<u>5,620,626</u>
8,853,295	8,225,499	11,632,455	8,586,519	3,930,421
-	-	-	-	-
<u>8,853,295</u>	<u>8,225,499</u>	<u>11,632,455</u>	<u>8,586,519</u>	<u>3,930,421</u>
93,034	146,337	378,615	112,237	32,201
334,000	287,000	243,000	210,000	96,000
1,009,402	965,593	989,106	834,439	726,457
992,257	1,007,002	995,776	954,599	460,270
1,471,418	1,345,995	1,328,996	1,255,925	796,744
-	-	-	-	-
<u>12,753,406</u>	<u>11,977,426</u>	<u>15,567,948</u>	<u>11,953,719</u>	<u>6,042,093</u>
<u>\$ (707,566)</u>	<u>\$ (1,463,318)</u>	<u>\$ (5,868,564)</u>	<u>\$ (2,868,825)</u>	<u>\$ (421,467)</u>

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

	June 30			
	2002	2001	2000	1999
INCOME				
Premiums earned to date	\$ 8,709,818	\$ 9,282,133	\$ 4,893,598	\$ 4,045,573
Investment income	2,239,852	2,954,532	1,296,818	1,307,571
Operating transfers	-	-	-	-
Other income	311	-	-	-
Total Income	<u>10,949,981</u>	<u>12,236,665</u>	<u>6,190,416</u>	<u>5,353,144</u>
CHARGES TO FUND				
Claims paid to date:				
Gross incurred claims	7,603,049	7,101,704	7,316,473	5,370,888
Less excess over retention	-	-	-	-
Net Claims Paid	<u>7,603,049</u>	<u>7,101,704</u>	<u>7,316,473</u>	<u>5,370,888</u>
Reserves on open claims	87,362	28,227	5,175	34,387
Actuary reserves	-	158,000	127,000	119,000
Excess reserve fee/reinsurance	667,071	709,264	802,603	902,309
Service fee	932,016	934,005	922,817	891,606
Operating expenses	1,215,714	1,054,712	919,461	823,868
Pension adjustment	-	-	-	-
Total Charges to Fund	<u>10,505,212</u>	<u>9,985,912</u>	<u>10,093,529</u>	<u>8,142,058</u>
SURPLUS (DEFICIT)	<u>\$ 444,769</u>	<u>\$ 2,250,753</u>	<u>\$ (3,903,113)</u>	<u>\$ (2,788,914)</u>

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

June 30				
1998	1997	1996	1995	1994
\$ 7,990,363	\$ 7,772,443	\$ 8,414,883	\$ 9,586,481	\$ 7,738,970
2,202,905	1,821,466	1,472,370	1,217,398	939,363
-	-	-	-	-
-	-	-	-	-
<u>10,193,268</u>	<u>9,593,909</u>	<u>9,887,253</u>	<u>10,803,879</u>	<u>8,678,333</u>
5,310,775	5,286,669	5,404,078	5,959,173	4,679,261
-	-	-	35,000	-
<u>5,310,775</u>	<u>5,286,669</u>	<u>5,404,078</u>	<u>5,924,173</u>	<u>4,679,261</u>
32,391	49,751	17,650	45,839	2,011
66,000	55,000	61,000	45,000	26,000
341,765	288,231	210,000	210,000	210,000
871,300	794,658	966,325	595,483	778,164
893,212	802,035	797,920	927,162	642,021
-	-	-	-	-
<u>7,515,443</u>	<u>7,276,344</u>	<u>7,456,973</u>	<u>7,747,657</u>	<u>6,337,457</u>
<u>\$ 2,677,825</u>	<u>\$ 2,317,565</u>	<u>\$ 2,430,280</u>	<u>\$ 3,056,222</u>	<u>\$ 2,340,876</u>

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

	June 30			
	1993	1992	1991	1990
INCOME				
Premiums earned to date	\$ 6,973,395	\$ 5,637,061	\$ 4,285,633	\$ 4,270,202
Investment income	878,409	792,086	639,234	601,705
Operating transfers	-	-	-	-
Other income	-	-	-	-
Total Income	<u>7,851,804</u>	<u>6,429,147</u>	<u>4,924,867</u>	<u>4,871,907</u>
CHARGES TO FUND				
Claims paid to date:				
Gross incurred claims	5,566,583	4,056,028	3,758,401	3,139,682
Less excess over retention	-	-	-	144,550
Net Claims Paid	<u>5,566,583</u>	<u>4,056,028</u>	<u>3,758,401</u>	<u>2,995,132</u>
Reserves on open claims	14,922	4,813	-	24,332
Actuary reserves	1,000	2,000	1,000	-
Excess reserve fee/reinsurance	210,000	210,000	210,000	210,000
Service fee	644,000	372,245	(2)	(2)
Operating expenses	502,427	567,312	712,924	731,511
Pension adjustment	-	-	-	-
Total Charges to Fund	<u>6,938,932</u>	<u>5,212,398</u>	<u>4,682,325</u>	<u>3,960,975</u>
SURPLUS (DEFICIT)	<u>\$ 912,872</u>	<u>\$ 1,216,749</u>	<u>\$ 242,542</u>	<u>\$ 910,932</u>

⁽²⁾ Included in operating expenses.

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Income, Expenses and Claims Paid by Fund Year *(Continued)*
Years Ended December 31, 2003 through December 31, 2021,
the Six Months Ended December 31, 2002 and the Years Ended
June 30, 1986 through June 30, 2002

June 30			
1989	1988	1987	1986
\$ 4,100,046	\$ 3,343,852	\$ 2,590,145	\$ 2,044,971
441,680	308,702	231,833	117,012
-	-	-	-
-	-	-	-
<u>4,541,726</u>	<u>3,652,554</u>	<u>2,821,978</u>	<u>2,161,983</u>
3,101,441	3,722,497	2,059,488	1,954,661
<u>129,000</u>	<u>84,807</u>	<u>129,000</u>	<u>115,501</u>
2,972,441	3,637,690	1,930,488	1,839,160
1,246	2,105	-	-
1,000	1,000	1,000	-
210,000	210,000	⁽²⁾	177,338
310,235	176,669	140,056	⁽²⁾
368,978	504,317	605,699	390,368
-	-	-	-
<u>3,863,900</u>	<u>4,531,781</u>	<u>2,677,243</u>	<u>2,406,866</u>
<u>\$ 677,826</u>	<u>\$ (879,227)</u>	<u>\$ 144,735</u>	<u>\$ (244,883)</u>

See Independent Auditor's Report.

Arkansas Municipal League Municipal League Workers' Compensation Program

Schedule of Investments Held During the Year Year Ended December 31, 2021

Security Type/Description	Interest Rate %	Maturity Date	Amount Invested (Cost)	Income Received	Book Yield % ⁽¹⁾	Duration (Years) ⁽²⁾
U.S. Agency and Government-Sponsored Entity Obligations						
FFCBFC	1.125	6/1/2029	\$ 748,688	\$ 8,438	1.147	5.388
FHLB	3.000	10/12/2021	\$ 902,592	\$ 27,000	Matured/Sold	Matured/Sold
FHLB	1.875	11/29/2021	\$ 740,475	\$ 14,063	Matured/Sold	Matured/Sold
FHLMC	2.375	1/13/2022	\$ 767,892	\$ 17,813	1.947	0.033
FHLMC	1.000	5/24/2029	\$ 498,750	\$ 5,083	1.031	5.554
FHLMC	1.000	5/25/2029	\$ 749,063	\$ 7,417	1.015	6.073
FNMA	1.250	5/6/2021	\$ 987,232	\$ 6,250	Matured/Sold	Matured/Sold
FNMA	1.250	8/17/2021	\$ 697,499	\$ 9,063	Matured/Sold	Matured/Sold
FNMA	2.125	4/24/2026	\$ 722,643	\$ 15,938	2.617	4.108
FNMA	1.875	9/24/2026	\$ 720,999	\$ 14,063	2.345	4.502
U.S. Treasury Obligations						
United States Treasury	0.000	1/21/2021	\$ 999,363	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	1/26/2021	\$ 1,999,880	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	2/23/2021	\$ 2,199,711	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	3/11/2021	\$ 2,999,093	\$ -	Matured/Sold	Matured/Sold
United States Treasury	3.125	5/15/2021	\$ 791,466	\$ 11,328	Matured/Sold	Matured/Sold
United States Treasury	0.000	7/15/2021	\$ 499,326	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	7/29/2021	\$ 999,987	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	8/3/2021	\$ 1,999,932	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	8/9/2021	\$ 499,350	\$ -	Matured/Sold	Matured/Sold
United States Treasury	1.500	9/30/2021	\$ 499,473	\$ 7,500	Matured/Sold	Matured/Sold
United States Treasury	0.000	10/21/2021	\$ 2,999,640	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	10/28/2021	\$ 999,848	\$ -	Matured/Sold	Matured/Sold
United States Treasury	0.000	11/18/2021	\$ 1,999,725	\$ -	Matured/Sold	Matured/Sold
United States Treasury	1.125	2/28/2022	\$ 505,371	\$ 5,625	0.580	0.163
United States Treasury	0.000	4/21/2022	\$ 499,723	\$ -	0.056	0.304
United States Treasury	0.000	8/11/2022	\$ 499,691	\$ -	0.063	0.610
United States Treasury	1.625	11/15/2022	\$ 501,563	\$ 8,125	1.516	0.867
United States Treasury	0.625	1/15/2024	\$ 1,852,393	\$ 12,420	0.515	1.023
United States Treasury	2.375	8/15/2024	\$ 516,914	\$ 11,875	1.606	2.529
United States Treasury	2.250	10/31/2024	\$ 502,207	\$ 11,250	2.181	2.738
United States Treasury	1.500	11/30/2024	\$ 499,336	\$ 7,500	1.528	2.847
United States Treasury	1.125	2/28/2025	\$ 510,977	\$ 5,625	0.676	3.089
United States Treasury	2.875	5/31/2025	\$ 531,621	\$ 14,375	1.640	3.257
United States Treasury	3.000	9/30/2025	\$ 536,387	\$ 15,000	1.658	3.535
United States Treasury	0.500	2/28/2026	\$ 491,601	\$ 1,189	0.845	4.093
United States Treasury	0.750	3/31/2026	\$ 498,984	\$ 1,639	0.792	4.155
United States Treasury	0.875	6/30/2026	\$ 250,967	\$ 1,052	0.796	4.395
United States Treasury	1.625	10/31/2026	\$ 499,531	\$ 8,125	1.639	4.627
United States Treasury	2.250	11/15/2027	\$ 518,593	\$ 11,250	1.740	5.493

(Continued)

See Independent Auditor's Report.

Arkansas Municipal League

Municipal League Workers' Compensation Program

Schedule of Investments Held During the Year *(Continued)* Year Ended December 31, 2021

Security Type/Description	Interest Rate %	Maturity Date	Amount Invested (Cost)	Income Received	Book Yield % ⁽¹⁾	Duration (Years) ⁽²⁾
U.S. Treasury Obligations						
<i>(Continued)</i>						
United States Treasury	1.250	3/31/2028	\$ 250,430	\$ 1,366	1.224	5.968
United States Treasury	0.875	1/15/2029	\$ 475,348	\$ 19,897	0.062	3.443
United States Treasury	2.375	5/15/2029	\$ 529,022	\$ 11,875	1.707	6.763
United States Treasury	1.125	2/15/2031	\$ 957,031	\$ 4,941	1.594	8.59
Corporate Notes & Bonds						
Apple Inc.	2.400	5/3/2023	\$ 724,740	\$ -	3.160	1.317
Catepillar Financial Services Corp.	1.450	5/15/2025	\$ 513,395	\$ 7,250	0.889	3.276
Coca-Cola Co.	2.550	6/1/2026	\$ 517,310	\$ 5,985	Matured/Sold	Matured/Sold
Exxon Mobile Corp.	2.397	3/6/2022	\$ 905,041	\$ 21,573	2.282	0.014
Intel Corp.	2.700	12/15/2022	\$ 594,303	\$ 16,200	2.916	0.946
International Business Machines Corp.	3.500	5/15/2029	\$ 542,330	\$ 17,500	2.502	6.503
John Deere Capital Corp.	1.750	3/9/2027	\$ 509,235	\$ 4,228	1.427	4.918
JP Morgan Chase & Co.	3.220	3/1/2025	\$ 722,666	\$ 24,150	3.880	2.077
Nike Inc.	2.250	5/1/2023	\$ 755,460	\$ 16,875	2.130	1.083
Pepsico Inc.	2.625	7/29/2029	\$ 516,665	\$ 13,125	2.240	6.714
PNC Bank NA	2.450	7/28/2022	\$ 594,324	\$ 14,700	2.682	0.484
Target Corp.	3.375	4/15/2029	\$ 544,385	\$ 16,875	2.305	6.344
Wells Fargo & Co.	3.500	3/8/2022	\$ 616,608	\$ 21,000	2.787	0.186
Total				<u>\$ 476,546</u>		
RECONCILIATION OF INCOME RECEIVED ABOVE TO INVESTMENT INCOME PER THE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION						
Income received				\$ 476,546		
Less 2020 accrued interest receivable				(110,272)		
Plus 2021 accrued interest receivable				101,550		
Plus interest on demand deposit account, money market mutual funds, equity in cash management account and certificate of deposit				<u>19,304</u>		
Investment income				<u>\$ 487,128</u>		

⁽¹⁾ At December 31, 2021 for securities held at that time.

⁽²⁾ Likely call date taken into account for callable securities.

See Independent Auditor's Report.



**Arkansas Municipal League
Firefighters Supplemental Income Protection Plan**

**Financial Statements
December 31, 2021 and 2020
(With Independent Auditor's Report Thereon)**

**Arkansas Municipal League
Firefighters Supplemental Income Protection Plan**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Municipal League Workers' Compensation Program
North Little Rock, Arkansas

Management
Arkansas Municipal League
North Little Rock, Arkansas

Opinion

We have audited the modified cash basis financial statements of the **Arkansas Municipal League Firefighters Supplemental Income Protection Plan (the Plan)**, which consist of the statements of assets, liabilities and net position – modified cash basis as of December 31, 2021 and 2020, and the related statements of revenues, expenditures and changes in net position – modified cash basis for the years then ended, and the related notes to the financial statements. The Plan is a benefit program managed by the Arkansas Municipal League (the League), subject to the oversight of the Board of Trustees of the Municipal League Workers' Compensation Program.

In our opinion, the financial statements present fairly, in all material respects, the modified cash basis financial position of the **Arkansas Municipal League Firefighters Supplemental Income Protection Plan** as of December 31, 2021 and 2020, and the changes in its modified cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). 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 Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Plan'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 U.S. GAAS 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 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 U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement 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 Plan'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 Plan'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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Members of the Board of Trustees
Municipal League Workers' Compensation Program
Management
Arkansas Municipal League

Emphasis of Matter

As disclosed in Note 1 of the financial statements, these financial statements present only balances and transactions that are directly attributable to the Plan and are not intended to present and do not present the financial position or results of operations of the League or any other benefit program managed by the League.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a more formal, slightly cursive font.

Little Rock, Arkansas
April 18, 2022

Financial Statements

Arkansas Municipal League

Firefighters Supplemental Income Protection Plan

Statements of Assets, Liabilities and Net Position – Modified Cash Basis
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 983,364	\$ 811,112
Investments	<u>1,451,062</u>	<u>1,646,175</u>
TOTAL ASSETS	<u><u>\$ 2,434,426</u></u>	<u><u>\$ 2,457,287</u></u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Unearned annual fees	\$ 56,180	\$ 67,400
Net Position	<u>2,378,246</u>	<u>2,389,887</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,434,426</u></u>	<u><u>\$ 2,457,287</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League

Firefighters Supplemental Income Protection Plan

Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Annual fees	\$ 74,220	\$ 77,860
OPERATING EXPENDITURES		
Claims paid	-	5,603
Service fee	102,896	87,232
Reserve fee	7,786	8,350
Other	725	594
Total Operating Expenditures	<u>111,407</u>	<u>101,779</u>
Net Operating Loss	<u>(37,187)</u>	<u>(23,919)</u>
NONOPERATING REVENUES , NET		
Investment income, net	35,925	123,128
Investment fees	(10,379)	(6,489)
Total Nonoperating Revenues, Net	<u>25,546</u>	<u>116,639</u>
(DECREASE)/INCREASE IN NET POSITION	(11,641)	92,720
NET POSITION, BEGINNING OF YEAR	<u>2,389,887</u>	<u>2,297,167</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,378,246</u></u>	<u><u>\$ 2,389,887</u></u>

See accompanying notes to financial statements.

Arkansas Municipal League

Firefighters Supplemental Income Protection Plan

Notes to the Financial Statements
December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arkansas Municipal League (the League) is a voluntary group of Arkansas cities and towns, founded in 1934. The League provides a variety of services and benefits to its members, including legislative advocacy, risk management and benefit programs, training and educational opportunities and informational publications. The Firefighters Supplemental Income Protection Plan (the Plan) was established by the League to provide supplemental income to volunteer and part-paid firefighters within the state of Arkansas who are injured or disabled while working. The number of firefighters covered under the Plan totaled 3,638 and 3,790 during the years ended December 31, 2021 and 2020, respectively.

Each participating municipality must cover their volunteer and part-paid firefighters under the Municipal League Workers' Compensation Program (the Program) to be eligible to participate in the Plan. Only municipal fire departments are eligible to participate in the Plan. Coverage under the Plan includes weekly temporary total disability benefits, based on two-thirds of the injured firefighter's salary at the time of injury up to the maximum under Arkansas Workers' Compensation Law, for up to 52 weeks. In addition, the Plan provides a \$10,000 death benefit payable to an eligible dependent if death occurs as a result of a compensable Workers' Compensation claim. This death benefit is in addition to funeral expenses covered under Arkansas Workers' Compensation Law.

The Executive Director of the League is designated as the Plan Administrator, and the League provides all facilities, personnel and services necessary for the administration of the Plan. Employees of the League dedicated to administration of the Program manage the day to day operations of the Plan; however, these financial statements do not reflect any disbursements related to the compensation of those individuals, as such amounts cannot be readily determined and would not be material. The operations of the Plan are subject to oversight provided by the Program Board of Trustees. The assets of the Plan are segregated from the League's assets and the assets of other benefit programs managed by the League, and neither the League nor the Program are responsible for any obligations incurred by the Plan.

These financial statements present only balances and transactions that are directly attributable to the Plan and are not intended to present and do not present the financial position, results of operations or cash flows of the League or any other benefit program managed by the League.

Measurement Focus and Basis of Accounting

The Plan is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as

Arkansas Municipal League

Firefighters Supplemental Income Protection Plan

Notes to the Financial Statements
December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Plan.

Transactions of the Plan are recorded in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, assets, liabilities, revenues and expenditures are generally recognized when cash is received or paid. Therefore, these financial statements do not report amounts receivable for annual fees due from participating municipalities or investment income earned but not received. In addition, these financial statements do not report liabilities or expenditures for goods or services received or for claims incurred before year end for which payment has not yet been made. Investments are reported at cost, rather than fair value. Generally, non-cash transactions are not reported by the Plan.

Basis of Presentation

Net position is categorized into amounts restricted and unrestricted, as applicable. As of December 31, 2021 and 2020, there were no restrictions on the net position of the Plan.

Operating revenues and expenditures are distinguished from nonoperating revenues and expenditures for purposes of presentation on the statements of revenues, expenditures and changes in net position – modified cash basis. Operating revenues consist of annual fees collected from members, and operating expenditures include costs related to payment of claims and administrative expenditures. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to investing activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposit account maintained with a financial institution and equity in a pooled cash management account, which is a demand deposit account maintained with a financial institution by the League for the benefit of certain funds and benefit programs managed by the League.

Investments

To maximize investment opportunities and returns, the League pools the resources of the funds and benefit programs under its management in several internal investment pools, each of which has a different asset mix and investment strategy. An internal investment pool is an arrangement that comingles the moneys of more than one fund within one legal entity. The underlying investments that comprise the internal investment pools may include marketable equity securities, obligations of the U.S. government, obligations of U.S. government agencies and government-sponsored entities, mutual funds, exchange traded funds, alternative investments and investments in certain other debt securities, as approved by the Executive Committee.

Arkansas Municipal League

Firefighters Supplemental Income Protection Plan

Notes to the Financial Statements
December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Investments of the Plan consist of ownership interests in these internal investment pools managed by the League. While the Plan owns a participating interest in the pools, it does not own the underlying securities. Amounts invested by the Plan in the internal investment pools are generally reported at cost on the statements of assets, liabilities and net position – modified cash basis. Net investment income (or loss) earned by the pools and certain investment fees are allocated to the Plan and other pool participants on a pro-rata basis and are recorded as increases (or decreases) in the cost of the investment.

Annual Fees

Participating cities and towns pay annual fees of \$20 per firefighter, with a minimum annual fee of \$240 for those cities and towns with all-volunteer departments. Annual fees received in advance of the coverage period to which they apply are reported as unearned annual fees on the statements of assets, liabilities and net position – modified cash basis.

Claims

Claims are reported as expenditures when paid.

Tax Status

The Plan is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

At December 31, cash and cash equivalents include the following:

	<u>2021</u>	<u>2020</u>
Demand deposit account	\$ 345,933	\$ 278,911
Equity in cash management account	<u>637,431</u>	<u>532,201</u>
	<u>\$ 983,364</u>	<u>\$ 811,112</u>

Arkansas Municipal League

Firefighters Supplemental Income Protection Plan

Notes to the Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Cash and Cash Equivalents

The Plan's demand deposit account, the cash management account and the demand deposit accounts of other funds and benefit programs managed by the League that are maintained at the same financial institution are insured by the Federal Deposit Insurance Corporation (FDIC), and any balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institutions and held in the name of the League. These collateral securities are maintained pursuant to the terms of collateral security custody agreements executed by the pledging financial institutions and the League and may not be released without the consent of the League.

Investments

The Executive Committee of the League has created and appointed members of an investment subcommittee to establish investment guidelines, review and evaluate investment results, and make recommendations on investment matters pertaining to investing activities of the League and certain benefit programs under management of the League. The Investment Policy Statement (the Policy), adopted by the League at the recommendation of the investment subcommittee, as amended, sets forth basic investment objectives and philosophies. The requirements of the Policy are applied to the investment portfolio managed by the League for all funds and benefit programs managed by the League.

The Policy specifies that the primary investment objective is to earn the highest possible return consistent with prudent levels of risk. In general, the Policy sets forth limitations and guidelines on industry concentrations and investment ratings. With respect to equity securities, no single equity security may exceed 10% of the aggregate fair value of all securities in the account in which that equity security is held. In addition, concentrations in any one economic sector are limited to 30% of the aggregate fair value of all securities in that account. With respect to debt securities, a minimum credit rating of A3/A- is generally required, with certain exceptions. With the exception of securities that are direct or guaranteed obligations of the U.S. government, concentrations with respect to any one issuer may not exceed 5% of the aggregate fair value of all securities in the account in which that debt security is held. Alternative investments are limited to 15% of the fair value of all the League's investments.

The table that follows provides detailed information about the internal investment pools in which the Plan's assets are invested as of December 31, 2021 and 2020, including estimated fair values. Fair values of the underlying securities that comprise the pools are generally determined by independent pricing sources. The fair values of debt securities are estimated using pricing models that consider various assumptions about interest rates, timing of cash flows and other market-related factors. The fair values of equity securities are based on unadjusted quoted prices for those securities in the active markets on which they are traded. The fair values of alternative investments are estimated based on the capital investment made by the League into those funds, adjusted for gains and losses and other highly subjective factors.

Arkansas Municipal League Firefighters Supplemental Income Protection Plan

Notes to the Financial Statements
December 31, 2021 and 2020

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

At December 31, the Plan's ownership interest in each pool is as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity Securities				
Russell 3000 Account	\$ 338,956	\$ 1,380,627	\$ 338,956	\$ 1,098,019
Large Cap Growth Account	253,464	396,157	250,203	311,505
Wellington Management Accounts:				
Large Growth	167,481	259,623	175,553	270,920
International Quality Growth	102,356	156,601	101,368	142,458
Enduring Assets	170,511	204,566	163,853	179,456
Stephens Opportunistic Account	12,596	12,930	18,360	19,140
Debt Securities				
Arkansas Bond Account	68,507	68,677	55,455	56,427
Stephens Opportunistic Account	83,075	85,274	86,365	90,365
Alternative Investments				
CapRocq Core Real Estate Fund L.P.	39,961	39,961	86,155	86,155
KKR Lending Partners, L.P.	15,168	15,168	12,580	12,580
Master limited partnerships	-	-	158,340	100,609
Owl Rock Capital Corporation	198,987	185,707	198,987	166,034
	<u>\$ 1,451,062</u>	<u>\$ 2,805,291</u>	<u>\$ 1,646,175</u>	<u>\$ 2,533,668</u>

More detailed information about the internal investment pools, investment policies and required custodial and credit risk disclosures is included in the League's audited financial statements and related footnotes, which can be obtained by contacting the Arkansas Municipal League, 301 West 2nd Street, North Little Rock, Arkansas 72114.

NOTE 3: TRANSACTIONS WITH THE LEAGUE

The League maintains a supplemental aggregate reserve (the Reserve Fund) to cover significant, extraordinary claims and other operational costs of the Plan and other benefit programs managed by the League. Each benefit program covered by the Reserve Fund is assessed an annual reserve fee. The reserve fee attributable to the Plan for 2021 and 2020 was 10% of annual premiums collected in the previous year, payable in March.

Arkansas Municipal League Firefighters Supplemental Income Protection Plan

Notes to the Financial Statements December 31, 2021 and 2020

NOTE 3: TRANSACTIONS WITH THE LEAGUE (Continued)

The League charges a service fee to recover costs incurred in the administration of the Plan and other funds and benefit programs managed by the League. The service fee for 2021 and 2020 was 3% of the fair value of the Plan's total assets on February 28, payable in March.

NOTE 4: COMMITMENTS AND CONTINGENCIES

Management of the League does not estimate the Plan's obligation for claims incurred and reported before year end that were paid after year end (claims payable) or claims incurred before year end but not reported until after year end (IBNR), and this obligation may be significant to the Plan's financial statements.

NOTE 5: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Plan, if any, will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 6: SUBSEQUENT EVENT

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of investments, however, at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they may have on the Plan's investments.