ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Annual Financial Report

June 30, 2019

LEGISLATIVE JOINT AUDITING COMMITTEE

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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Arkansas Public Employees Retirement System
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the Arkansas Public Employees Retirement System, an office of Arkansas state government, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Arkansas Public Employees Retirement System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arkansas Public Employees Retirement System as of June 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of the Arkansas Public Employees Retirement System are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Arkansas Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2019, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Public Employees Retirement System's basic financial statements. The Schedule of Selected Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Selected Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated December 20, 2019, on our consideration of the Arkansas Public Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Arkansas Public Employees Retirement System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arkansas Public Employees Retirement System's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

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

Little Rock, Arkansas
December 20, 2019
SA1037019

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Arkansas Public Employees Retirement System
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Arkansas Public Employees Retirement System (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Arkansas Public Employees Retirement System's basic financial statements and have issued our report thereon dated December 20, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

Tom Bullington

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
December 20, 2019

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

Exhibit A

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan	Total
ASSETS				
Cash and cash equivalents	$ 237,010,673	$ 16,179,690	$ 2,504,651	$ 255,695,014
Receivables:				
Employer contributions	1,798,370			1,798,370
Plan member contributions	599,457			599,457
Local district judges retirement funds	5,607,074			5,607,074
Investment principal receivable	43,193,971	1,620,421	1,595,574	46,409,966
Accrued investment income	22,691,068	851,255	820,101	24,362,424
Other, net of allowance for uncollectable accounts	51,548	12,393		63,941
Total Receivables	73,941,488	2,484,069	2,415,675	78,841,232
Investments, at fair value:				
U.S. Government securities	139,815,865	5,245,190	9,977,739	155,038,794
Government agency securities	194,218,220	7,286,094	27,786,931	229,291,245
Municipal bonds	428,462	16,074		444,536
Domestic equities	2,671,554,625	100,223,334	50,205,152	2,821,983,111
Domestic corporate obligations	540,593,831	20,280,370	37,470,195	598,344,396
International equities	1,310,807,313	49,174,918	6,829,556	1,366,811,787
International obligations	143,735,273	5,392,227	8,931,586	158,059,086
Mutual and exchange traded funds	149,175,472	5,596,316		154,771,788
Pooled investment funds	2,011,270,663	75,452,791	97,125,549	2,183,849,003
Real estate	961,387,184	36,066,427	23,993,350	1,021,446,961
Commercial loans	12,243,211	459,304	2,626,108	15,328,623
Diversified strategies	436,767,652	16,385,332		453,152,984
Investment derivatives	302,916	11,364	110,900	425,180
Total Investments	8,572,300,687	321,589,741	265,057,066	9,158,947,494
Securities lending collateral, at fair value:				
Repurchase agreements	259,219,987	9,724,634		268,944,621
Government agency securities	2,440,447	91,553		2,532,000
Floating rate notes	484,726,371	18,184,503		502,910,874
Asset-backed securities	251,251,094	9,425,681		260,676,775
Total Securities Lending Collateral	997,637,899	37,426,371		1,035,064,270
Prepaid expenses	269,888			269,888
Capital assets, at cost, less accumulated depreciation	16,558,434			16,558,434
TOTAL ASSETS	9,897,719,069	377,679,871	269,977,392	10,545,376,332
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Liabilities:				
Accrued expenses and other liabilities	8,756,737	542,498	339,416	9,638,651
Compensated absences	417,191			417,191
Post-employment benefit liability	4,802,010			4,802,010
Investment principal payable	51,397,220	1,928,167	2,358,489	55,683,876
Securities lending liability	998,806,043	37,470,194		1,036,276,237
Due to other agencies	11,020			11,020
Total Liabilities	1,064,190,221	39,940,859	2,697,905	1,106,828,985
Deferred inflows of resources - related to other post employment benefits	201,189			201,189
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,064,391,410	39,940,859	2,697,905	1,107,030,174
NET POSITION RESTRICTED FOR PENSIONS	$ 8,833,327,659	$ 337,739,012	$ 267,279,487	$ 9,438,346,158

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

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit B

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan	Total
ADDITIONS				
Contributions:				
Employer	$ 293,013,343	$ 6,727,409	$ 2,712,974	$ 302,453,726
Plan members	68,206,685	27,515	1,030,430	69,264,630
Supplemental contributions	561,766	8,035,961	5,009,400	13,607,127
Motor vehicle title fees		4,598,976		4,598,976
Designated court fees		849,578	511,585	1,361,163
Driver's license reinstatement fees		1,014,554		1,014,554
Total Contributions	361,781,794	21,253,993	9,264,389	392,300,176
Investment income:				
From investing activities:				
Net increase (decrease) in the fair value of investments	351,773,857	13,269,465	9,775,908	374,819,230
Interest and dividends	127,043,704	4,793,144	6,158,545	137,995,393
Other investment income	1,600,871	87,553		1,688,424
Total Investment Income (Loss)	480,418,432	18,150,162	15,934,453	514,503,047
Less investment expense	33,814,048	1,263,811	1,278,631	36,356,490
Net Investment Income (Loss)	446,604,384	16,886,351	14,655,822	478,146,557
From securities lending activities:				
Securities lending income	26,428,872	990,582		27,419,454
Less securities lending expense	22,540,158	845,450		23,385,608
Net Securities Lending Income	3,888,714	145,132		4,033,846
Other additions:				
Transfers from other public employees retirement systems	4,543,132			4,543,132
Miscellaneous additions	572,272			572,272
Total Other Additions	5,115,404			5,115,404
TOTAL ADDITIONS	817,390,296	38,285,476	23,920,211	879,595,983
DEDUCTIONS				
Benefits	555,352,597	24,930,274	12,979,769	593,262,640
Refunds of contributions	16,239,928		22,024	16,261,952
Transfers to other public employees retirement systems	1,656,182	160,687	110,050	1,926,919
Administrative expenses	13,566,062	393,754	37,011	13,996,827
TOTAL DEDUCTIONS	586,814,769	25,484,715	13,148,854	625,448,338
NET INCREASE (DECREASE) IN NET POSITION	230,575,527	12,800,761	10,771,357	254,147,645
NET POSITION - BEGINNING OF YEAR	8,602,752,132	324,938,251	256,508,130	9,184,198,513
NET POSITION - END OF YEAR	$ 8,833,327,659	$ 337,739,012	$ 267,279,487	$ 9,438,346,158

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

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 177 of 1957, as amended, established the Arkansas Public Employees Retirement System (APERS) as an office of Arkansas state government for the purpose of providing retirement benefits for employees and various elected officials of state and local government in Arkansas. The Act also provided for the administration and control of the system to be vested in a nine-member Board of Trustees. Six members are appointed by the Governor, with three members being state employees and three members being non-state employees. Each appointee shall have at least five continuous years of service with a public employer(s) that is a member of the system, and no more than one state employee or non-state employee appointed may be a retired member. The Auditor of State, the Treasurer of State, and the Director of the Department of Finance and Administration are ex-officio members.

Act 311 of 1951, as amended, established the Arkansas State Police Retirement System (ASPRS) as an office of Arkansas state government for the purpose of providing retirement benefits for commissioned police officers of the Department of Arkansas State Police. Act 1242 of 2009 transferred all assets of ASPRS to APERS to be held in trust for the benefit of ASPRS members and established a seven-member Board of Trustees. The Board members include one active member enrolled in the Tier One benefit program; one active, vested member enrolled in the Tier Two benefit program; one State Police Commissioner appointed by the Governor; and three citizens-at-large appointed by the Governor. The Director of the Department of Finance and Administration, or the Director’s designee, serves by virtue of his or her position.

Act 365 of 1953, as amended, established the Arkansas Judicial Retirement System (AJRS) as an office of Arkansas state government for the purpose of providing retirement benefits for Arkansas Chancery, Circuit, and Court of Appeals Judges and for Supreme Court Justices. Act 922 of 1983 transferred the administrative duties of AJRS to the Executive Director and administrative staff of APERS and gave AJRS the authority to establish a trust fund and initiate employer contributions into the fund. Act 240 of 1997 established a five-member Board of Trustees appointed by the Arkansas Judicial Council.

All Board members serve without compensation; however, each member is entitled to receive reimbursement for mileage and travel expenses incurred while performing official duties of their respective Board. Reimbursement shall be in an amount not to exceed that which is authorized by law as the maximum allowable travel reimbursement for state employees at the time the travel is incurred.

B. Plan Descriptions

The Arkansas Public Employees Retirement System manages three defined benefit pension plans: two single-employer plans (i.e., State Police Retirement Plan and Judicial Retirement Plan) and one multi-employer cost sharing plan (i.e., Public Employees Retirement Plan). On June 30, 2019, membership in each plan consisted of the following:

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan
Retirees and beneficiaries currently receiving benefits, including DROP participants	38,711	735	149
Terminated members entitled to but not yet receiving benefits	14,959	102	8
Active members	45,988	473	140
Total	99,658	1,310	297

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Plan Descriptions (Continued)

Public Employees Retirement Plan Description

The public employees retirement plan is a cost-sharing, multiple-employer defined benefit pension plan that covers all state employees who are not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under this system, college and university employees, and certain non-teaching school employees. Benefits are also provided for governors, General Assembly members, state and county constitutional officers, and quasi-judicial members.

On June 30, 2019, the number of employers participating in the plan was as follows:

State	234
Municipal	175
County	87
School	55
Court Clerks	38
Other Non-State	32
District Judges	15
Total	636

The public employees retirement plan was established as contributory. Act 793 of 1977 allowed existing and previous members to become noncontributory members. Anyone joining after January 1, 1978, was automatically enrolled as a noncontributory member. Act 2084 of 2005 established a new contributory requirement for all covered employees first hired on or after July 1, 2005. Employees hired prior to this date that are noncontributory have the option to become a contributory member at any time.

Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service or (2) at age 55 with five years of actual service. A member who is defined as a public safety member is eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average compensation (an average of the highest 36 months' earnings) and (2) the number of years of credited service. The plan also provides for disability and survivor benefits.

Under Arkansas Code, the following groups or individuals are allowed credit for years of service on a basis greater than 1:1:

Public safety members	1.5 per year for individuals employed prior to July 1, 1997
Governor	3 per year if first elected to public office prior to July 1, 1999
Elected state constitutional officers	2.5 per year if first elected to public office prior to July 1, 1999
Elected under state division	2 per year if first elected to public office prior to July 1, 1999
Local elected officials	2 per year

The benefit provisions provided by the public employees retirement plan are established by state law and may be amended only by the General Assembly. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Plan Descriptions (Continued)

State Police Retirement Plan Description

The State Police retirement plan is a single-employer defined benefit pension plan administered by APERS that covers all commissioned police officers of the Department of Arkansas State Police. It was established as a contributory plan but was amended by Act 793 of 1977 to allow existing and previous members to become noncontributory members. Anyone joining the system after January 1, 1978, was automatically enrolled as a noncontributory member. Act 1071 of 1997 created a Tier Two benefit program for all officers hired on or after April 3, 1997. Existing members of the plan in effect prior to this date (hereafter referred to as Tier One) had one year to elect coverage under Tier Two.

Contributory members are eligible for full retirement benefits (1) at any age with 30 years of credited service or (2) at age 50 with five years of actual service. Noncontributory members are eligible for full retirement benefits (1) at any age with 30 years of actual service; (2) at age 52 with five years of actual service for Tier One; or (3) at age 65 with five years of actual service for Tier Two. The age requirement for Tier One is reduced by one month for every two months of Public Safety service credit but not below age 52. The age requirement for Tier Two is reduced by 75% of a month for each actual month of service but not below age 55. Contributory members are eligible for reduced benefits at any age after 20 years of credited service. Noncontributory members are eligible for a reduced benefit after five years of actual service once the covered employee is within 10 years of becoming eligible for full benefits.

Public Safety service credit is granted at the rate of 1.5 months of credit for each actual month of Public Safety employment for Tier One noncontributory members. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average compensation (average of salary paid in the three years immediately preceding termination for the contributory plan or an average of the highest 60 calendar months' salary for Tier One or the highest 48 calendar months' salary for Tier Two) and (2) the number of years and months of credited service. The plan also provides for disability and survivor benefits.

The benefit provisions provided by the State Police retirement plan are established by state law and may be amended only by the General Assembly. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%.

Judicial Retirement Plan Description

The judicial retirement plan is a single-employer, defined benefit pension plan administered by APERS that covers all Chancery, Circuit, and Court of Appeals Judges and Supreme Court Justices, whether elected or appointed to office. Act 399 of 1999 created a Tier Two benefit program for all judges or justices elected or appointed on or after July 30, 1999. Existing members of the plan in effect prior to this date (hereafter referred to as Tier One) had until the end of their current term to elect coverage under Tier Two.

Under Tier One, members are eligible for full retirement benefits (1) at any age with 20 years of credited service or (2) at age 65 with 10 years of credited service. Persons who became members after June 30, 1983, must also have at least eight years of actual service as a Supreme Court Justice or as a judge of the Circuit Courts or the Court of Appeals. Members are eligible for reduced benefits (1) at any age if they were a member before July 1, 1983, and have at least 18 but less than 20 years of credited service or (2) are between the ages of 62 and 65 with 14 years of credited service. The normal retirement benefit, paid monthly, is 60% of the annual salary payable to the last judicial office held. For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased as the salary for the particular judicial office is increased or decreased. For all judges or justices who were first elected or appointed on or after July 1, 1983, the redetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. The plan also provides for disability and survivor benefits.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Plan Descriptions (Continued)

Judicial Retirement Plan Description (Continued)

Under Tier Two, members are eligible for full retirement benefits (1) at any age with 20 years of actual service or (2) at age 65 with eight years of actual service. Members are eligible for reduced benefits if they are between the ages of 62 and 65 and have eight years of actual service. The normal retirement benefit, paid monthly, is 3.2% of the salary of the last judicial office held multiplied by the number of years of actual service, not to exceed 80% of the salary of the last judicial office held. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. The plan also provides for disability and survivor benefits.

The benefit provisions provided by the judicial retirement plan are established by state law and may be amended only by the General Assembly.

C. Basis of Presentation – Fund Accounting

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

Fiduciary Funds

Trust and Agency Funds –Trust and Agency Funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Agency Funds. The specific activity accounted for at this Agency includes the following:

Public Employees Retirement Plan Fiduciary Pension Trust Fund
State Police Retirement Plan Fiduciary Pension Trust Fund
Judicial Retirement Plan Fiduciary Pension Trust Fund

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for fiduciary funds are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

E. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash in State Treasury, short-term investment funds (STIF), and cash on deposit with investment managers. The STIF account is created through daily sweeps of excess cash by the custodial bank and is invested in U.S. Government and agency securities and other short-term instruments. The STIF account had a weighted average maturity of 90 days or less, and the holdings are stated at fair value.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

Deposits

Deposits consist of cash in short-term investment fund, cash in State Treasury, and cash in bank totaling $246,623,317, $8,989,456, and $82,041, respectively. Most deposits are carried at cost except for the STIF account which is stated at fair value. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. A formal policy for custodial credit risk has not been adopted by any Board of Trustees. As of June 30, 2019, none of the cash held in the short-term investment fund of $246,623,317 was exposed to custodial credit risk as it was collateralized by securities held by the custodial agent in the Agency's name. As of June 30, 2019, none of the Agency's bank balance of $82,325 was exposed to custodial credit risk as it was fully insured by the Federal Deposit Insurance Corporation.

Investments

Ark. Code Ann. §§ 24-2-601 — 24-2-619 grants each plan's Board of Trustees full power to invest and reinvest monies of their respective systems and to hold, purchase, sell, assign, transfer, or dispose of any of the investments or proceeds of the investments in accordance with the prudent investor rule. The Code also states each system shall seek to invest not less than 5% or more than 10% of its portfolio in Arkansas-related investments, as long as each System's responsibility to invest in accordance with the prudent investor rule is not limited or impaired. As stated in Note 1A, all assets of ASPRS were transferred to APERS, and the Board of Trustees for APERS makes all investment decisions.

The Boards of APERS and AJRS determine specific guidelines and parameters by which each investment manager is required to invest. Asset allocation guidelines have been established as follows:

	Domestic Equity	International Equity	Fixed Income	Real Assets	Diversified Strategies
APERS and ASPRS					
Upper Limit	42%	29%	23%	21%	10%
Target	**37%**	**24%**	**18%**	**16%**	**5%**
Lower Limit	32%	19%	13%	11%	0%
AJRS					
Upper Limit	42%	20%	45%	13%	N/A
Target	**37%**	**15%**	**40%**	**8%**	**N/A**
Lower Limit	32%	10%	35%	3%	N/A

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Level 1: Unadjusted quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

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

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument(s) and should not be perceived as the particular investment's risk. The fair value measurement of plan investments and securities lending collateral as of June 30, 2019, is as follows:

Plan Investments Measured At Fair Value	Total	Level 1	Level 2	Level 3
U.S. Government securities	$ 155,038,794	$ 155,038,794		
Government agency securities:				
Government agency pooled securities	174,970,588		$ 174,970,588	
Government agency collateralized mortgage obligations	54,320,657		54,320,657	
Municipal bonds	444,536		444,536	
Domestic equities:				
Common stock	2,761,030,996	2,761,030,996		
Convertible preferred stock	57,564,490	36,238,297	21,326,193	
Preferred stock	3,387,625		3,387,625	
Domestic corporate obligations:				
Corporate bonds	250,522,553		250,522,553	
Convertible bonds	225,252,749		225,252,749	
Asset- and mortgage-backed securities	122,569,094		122,569,094	
International equities:				
Equity securities	1,346,319,198	1,346,319,198		
Preferred stock	20,492,589	20,492,589		
International obligations:				
Corporate securities	92,480,572		92,480,572	
Emerging markets	26,837,620		26,837,620	
Asset-backed securities	19,101,147		19,101,147	
Convertible bonds	18,622,477		18,622,477	
Non-U.S. Government securities	1,017,270		1,017,270	
Mutual and exchange traded funds:				
Emerging markets equity portfolio	103,632,140	103,632,140		
Global bond fund	32,898,585	32,898,585		
Floating rate bond fund	18,241,063	18,241,063		
Commercial loans	15,328,623			$ 15,328,623
Investment derivatives:				
Futures	389,164	389,164		
Forwards	36,016		36,016	
Total Plan Investments Measured at Fair Value	5,500,498,546	$ 4,474,280,826	$ 1,010,889,097	$ 15,328,623

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Plan Investments Measured At Net Asset Value Or Equivalent (NAV)		
Pooled investment funds:		
ACWI ex-US index fund	$ 794,473,317	
Core plus bond fund	505,935,511	
S&P 500 equity index fund	448,150,428	
Global real estate investment trust fund	156,782,271	
Global energy fund	128,955,419	
Defensive bond arbitrage fund	51,205,830	
Collective investment fund II diversified growth series 1	45,754,564	
International choice fund	40,723,576	
High-yield income fund	11,868,087	
Real estate:		
Invesco core real estate	488,084,489	
Heitman America real estate trust	317,559,012	
Timberfund I	90,836,191	
TA Realty funds X and XI	66,088,078	
LaSalle funds VI and VII	44,349,769	
Heitman value fund IV	14,529,422	
Diversified strategies:		
Blackstone hedge fund of funds	186,771,753	
AQR global risk premium tactical fund (GRPT)	144,106,639	
Newton global real return (US$)	122,274,592	
Total Plan Investments Measured at NAV	3,658,448,948	
Total Plan Investments	$ 9,158,947,494	
Securities Lending Collateral Measured at Fair Value*		
Repurchase agreements	$ 268,944,621	$ 268,944,621
Government agency securities	2,532,000	2,532,000
Floating rate notes	502,910,874	502,910,874
Asset-backed securities	260,676,775	260,676,775
Total Securities Lending Collateral	$ 1,035,064,270	$ 1,035,064,270

*Cash collateral received totaled $1,036,276,237. The amount reported above is the market value of the collateral at June 30, 2019.

Investments Classified as Level 1 – Level 1 investments in the preceding table are exchange-traded securities whose values are based on published market prices and quotations from either national security exchanges or active markets for those securities.

Investments Classified as Level 2 – Level 2 investments in the preceding table include publicly-traded debt securities and exchange-traded stocks in inactive markets. Investments in this category are sourced from reputable pricing vendors using pricing matrix models and techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank, Bank of New York Mellon.

Investments Classified as Level 3 – Level 3 investments in the preceding table are unobservable, meaning the assets lack an independent pricing source. Values are provided by the investment manager using discounted cash flow or market comparable techniques.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Investments Measured at the Net Asset Value or Equivalent (NAV) – Investments measured at NAV have no readily ascertainable fair value. The value is determined by using the net asset value per share or its equivalent. Commingled fund values are based on each investor's proportionate share of the total underlying assets in the fund, less any liabilities for client withdrawals, investment purchases, or other accrued expenses. Limited partnership values are based on the capital account balance the general partner reports at the end of each reporting period, adjusted by subsequent contributions, distributions, management fees, and changes in values of foreign currency and published market prices for certain securities. Even though the limited partnerships and commingled funds issue annual financial statements audited by independent auditors, the year-end for these entities and APERS do not always agree. There are inherent uncertainties in estimating fair values for these types of investments, and it is possible that the estimates will change in the near-term or the subsequent sale of assets will be different from the reported net asset value. With certain exceptions, mainly the equity and the fixed income funds, these investments cannot be redeemed or have certain restrictions regarding redemption. The real estate investments and the Timberfund I distributions are through the liquidation of the underlying assets or net operating cash flows. Each investment has a different redemption frequency and notice period as noted in the following table.

	Fair Value	Strategy Type	Fund Life of Non-redeemable Mandates	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Redemption Restrictions	Restriction Time Remaining
Pooled investment funds:								
ACWI ex-US index fund	$ 794,473,317	International equities	N/A	none	daily	T + 1	N/A	N/A
Core plus bond fund	505,935,511	Active global fixed income	N/A	none	daily	T + 3	N/A	N/A
S&P 500 equity index fund	448,150,428	S&P 500 Index	N/A	none	daily	T + 3	N/A	N/A
Global real estate investment trust fund	156,782,271	Global real estate securities	N/A	none	daily	T + 1	N/A	N/A
Global energy fund	128,955,419	Global energy stocks	N/A	none	daily	T + 3	N/A	N/A
Defensive bond arbitrage fund	51,205,830	Income oriented	N/A	none	daily	T + 1	N/A	N/A
Collective investment fund II diversified growth series 1	45,754,564	U.S. large cap growth stocks	N/A	none	daily	T + 1	N/A	N/A
International choice fund	40,723,576	International equities	N/A	none	daily	T + 3	N/A	N/A
High-yield income fund	11,868,087	Active high-yield fixed income	N/A	none	daily	T + 1	N/A	N/A
Real estate:								
Invesco core real estate	488,084,489	Core real estate	N/A	none	quarterly	T + 45	N/A	N/A
Heitman America real estate trust	317,559,012	Core real estate	N/A	none	quarterly	T + 90	N/A	N/A
Heitman value partners IV	14,529,422	Value add real estate	N/A	$ 60,970,790	7-year lock up	N/A	N/A	Lock up period starts on the day of the last capital call
Timberfund I	90,836,191	Real assets	N/A	none	none	N/A	N/A	Partnership terminates December 2027
TA Realty fund X	14,029,938	Value add real estate	N/A	none	7-year lock up	N/A	N/A	Capital redistribution phase
TA Realty fund XI	52,058,140	Value add real estate	N/A	none	7-year lock up	N/A	N/A	Capital redistribution phase
TA Realty fund XII		Value add real estate	N/A	75,000,000	7-year lock up	N/A	N/A	Lock up period starts on the day of the last capital call
LaSalle fund VI	11,429,954	Value add real estate	N/A	none	7-year lock up	N/A	N/A	Capital redistribution phase
LaSalle fund VII	32,919,815	Value add real estate	N/A	6,737,323	7-year lock up	N/A	N/A	Lock up period starts on the day of the last capital call
Diversified strategies:								
Blackstone hedge fund of funds	186,771,753	Fund of funds	N/A	none	last day of each quarter	1yr; 2yrs; 3yrs; >3yrs	55% liquidity; then 20%; then 15%; then 10%	N/A
AQR global risk premium tactical fund (GRPT)	144,106,639	Risk premia	N/A	none	weekly and monthly	T + 2	N/A	N/A
Newton global real return (US$)	122,274,592	Global real return	N/A	none	daily	T + 3	N/A	N/A
Totals	$ 3,658,448,948			$ 142,708,113				

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

ACWI ex-US Index Fund – This fund captures large and mid-cap representation across 22 of 23 developed market (DM) countries (excluding the United States) and 24 emerging market countries (EM). The index encompasses approximately 85% of the global equity opportunity set outside the United States.

Core Plus Bond Fund – This fund seeks excess return from multiple sources, including sector allocation and subsector and security selection. Duration, yield curve, and currency positioning are moderate. The largest component of the fund's risk budget is allocated to portfolio strategies that have consistently generated the highest return for the lowest unit of risk over time, such as sector allocation and subsector/security selection. The fund portfolios may emphasize spread product in the sector allocation process and, therefore, may hold larger-than-benchmark allocations to corporate bonds, structured product, high-yield bonds, and emerging markets debt. As a result, the strategy would likely outperform in a "risk on" environment where corporate bonds, for example, are outperforming. The reverse would also likely be true. The fund takes an actively-managed, relative-value driven approach and is expected to perform best in markets with excess spread dislocations that it can capitalize on through relative value trading.

S&P 500 Equity Index Fund – This is an S&P 500 Index fund.

Global Real Estate Investment Trust Fund – This REIT index fund seeks to match the performance and the characteristics of the Dow Jones U.S. Select REIT Index which tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investments.

Global Energy Fund – This fund seeks to invest globally in opportunities found in the energy industry. Strategies are both long and short in equity securities and related instruments of energy and energy-related businesses.

Defensive Bond Arbitrage Fund – The investment objective of this fund is to exploit different sources of return available in high-yield corporate securities in a way that generates risk-adjusted returns superior to those available from conventional high-yield securities. The investment strategy is based on the assumption and observation that numerous market inefficiencies exist throughout the capital markets (particularly in the high-yield bond markets) and that the prudent, active, and systematic exploitation of these inefficiencies can generate returns consistent with these objectives.

Collective Investment Fund II Diversified Growth Series 1 – The objective of the diversified growth fund is to provide long-term returns above those of the Russell 1000 Growth Index by investing primarily in large U.S. companies that are projected to grow faster than other large-cap stocks.

International Choice Fund – The Choice Fund aims to deliver good long-term performance to shareholders by investing in a portfolio of 60-90 international growth stocks, with up to 15% in emerging markets. The portfolio is built through bottom-up stock selection. It differs from the benchmark and looks for businesses that seek to outperform the market over the long term. Portfolio guidelines ensure a level of diversification across sectors and regions.

High-Yield Income Fund – The High-Yield Active Core philosophy is centered on the belief that the best risk-adjusted returns and, ultimately, the best absolute returns are generated by a strategy of yield capture and error avoidance.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Real Estate – This asset class provides diversification to the total portfolio and strives to reduce total fund volatility while also enhancing the total return of the portfolio. Real estate has a low, and in some cases negative, correlation with other major investment asset classes. The following are the strategies that comprise the real estate asset class and are explained in greater detail:

Invesco Core Real Estate (ICRE) – The ICRE strategy is a portfolio of U.S. properties diversified by property type and geographic location, with an emphasis on attractive current income returns and the opportunity for both income and capital growth. It is based on top-down economic fundamentals combined with bottom-up local market intelligence.

Heitman America Real Estate Trust (HART) – The HART strategy creates a high-quality, low-risk portfolio of stabilized income-producing assets diversified by property type and economic exposure through acquiring assets in infill locations within major metropolitan areas, focusing on strong site attributes such as proximity to amenities and transportation networks, and ensuring that assets are well constructed with features that will appeal to tenants over long periods of time.

Heitman Value Partners IV – This fund is a closed-end, commingled fund that pursues a diverse set of real estate opportunities with value-added business plans. The objective is to provide investors with attractive risk-adjusted returns by benefitting from extensive research as well as real estate and capital market expertise to identify emerging opportunities and trends before they are fully appreciated by the broader market.

Timberfund I – The Timberfund I is a managed investment that was created for the purpose of acquiring, growing, and disposing of timber, timberlands, and forest products for commercial exploitation.

TA Realty Funds X, XI, and XII – TA Realty has managed value-add, commingled real estate funds for approximately 30 years. It has investments in 35 markets and four property types: office, industrial, multifamily, and retail. The firm has developed and refined a consistent approach focused on creating diversified real estate portfolios that can generate strong cash flow, benefit from an intensive asset management approach, and result in the long-term creating of value for the life of the fund(s).

LaSalle Funds VI and VII – The LaSalle Funds pursue non-core properties that exhibit strong fundamentals and are expected to generate both income and appreciation. The sectors focused on are office, multifamily, retail, industrial, and specialty.

Diversified Strategies – This asset class provides diversification to the total portfolio and strives to reduce total fund volatility while also enhancing the total return of the portfolio. The following are the strategies that comprise the diversified strategies asset class and are explained in greater detail:

Blackstone Hedge Fund of Funds – Blackstone manages a hedge fund-of-funds strategy through investing in other hedge funds. Their strategies will vary based on market conditions and can include fundamental equity strategies, event-driven strategies, fundamental credit strategies, credit trading strategies, distressed credit strategies, RMBS strategies, structured ABS strategies, multi-strat strategies, commodity strategies, macro rates strategies, thematic macro strategies, quantitative strategies, CTA strategies, and special situation strategies.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

AQR Global Risk Premium Tactical Fund (GRPT) – This fund seeks to efficiently deliver exposure to a broadly diversified set of global risk premia. In many institutional portfolios, equity risk is the predominant risk, a concentration driven by the need for high expected return that cannot be satisfied in a traditionally constrained, well-diversified portfolio. Rather than diversifying by capital, this strategy seeks to diversify based on risk across global equities, global nominal bonds, inflation sensitive assets, and credit/default-related assets. Starting from this strategic risk-parity base, GRPT then employs modest tactical tilts across sub-sectors and across individual exposures, attempting to exploit temporary opportunities that may arise within markets. Following basic financial theory, AQR designed its risk parity strategies based on what they believe to be the most optimal liquid portfolio of global market betas, and AQR offers that same portfolio at various levels of leverage to target a desired amount of risk as approximated by ex-ante volatility. AQR's approach employs modest leverage to scale up a lower-risk, broadly-diversified portfolio.

Newton Global Real Return (US$) – This fund uses an actively managed, unconstrained, multi-asset strategy that aims to achieve a return of 1-month USD LIBOR +4% p.a. over rolling five-year periods. The strategy seeks to add value through security selection and asset type flexibility, and it also has an emphasis on capital preservation. The strategy is long only, does not use leverage or short securities, and is valued daily.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2019, the annual money-weighted rate of return for each plan was as follows:

Public Employees Retirement Plan	5.31%
State Police Retirement Plan	5.36%
Judicial Retirement Plan	5.72%

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, investments can be highly sensitive to changes in interest rates due to their terms or characteristics. A formal investment policy has not been adopted by any Board of Trustees that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary below of investments subject to interest rate risk indicates that, as of June 30, 2019, 98.09% of plan investments and 44.02% of the investments purchased with securities lending cash collateral have maturities of one year or longer.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Investment Type	Fair Value	Investment Maturities (In Years) Less than 1	1 - 5	6 -10	More than 10
U.S. Government securities	$ 155,038,794	$ 19,028,006	$ 15,117,931	$ 52,215,951	$ 68,676,906
Government agency securities	229,291,245		10,980		229,280,265
Municipal bonds	444,536		151,659		292,877
Domestic corporate obligations	598,344,396	14,368,264	191,757,418	190,970,848	201,247,866
International obligations	158,059,086	601,560	53,390,245	63,438,077	40,629,204
Global bond fund	32,898,585			32,898,585	
Floating rate bond fund	18,241,063		18,241,063		
Commercial loans	15,328,623		11,532,639	3,795,984	
Core plus bond fund	505,935,511		505,935,511		
Defensive bond arbitrage fund	51,205,830		51,205,830		
High-yield income fund	11,868,087			11,868,087	
Totals	$ 1,776,655,756	$ 33,997,830	$ 847,343,276	$ 355,187,532	$ 540,127,118
Securities Lending Collateral					
Repurchase agreements	$ 268,944,621	$ 268,944,621			
Government agency securities	2,532,000	2,532,000			
Floating rate notes	502,910,874	226,807,585	$ 276,103,289		
Asset-backed securities	260,676,775	81,142,343	177,104,809		$ 2,429,623
Totals	$ 1,035,064,270	$ 579,426,549	$ 453,208,098	$ 0	$ 2,429,623

Mortgage-Backed Securities – As of June 30, 2019, investments that were affiliated with mortgages had a fair value of $309,810,480. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the full amount of principal will be received if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to prepay the existing loan and obtain new, lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors, such as loan types and geographic location of the related properties.

Asset-Backed Securities – As of June 30, 2019, asset-backed securities had a fair value of $321,827,783. Included in this amount was $260,676,775 in securities lending collateral. Asset-backed securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Domestic and International Corporate Debt – As of June 30, 2019, domestic and international corporate debt had a fair value of $872,751,619. Included in this amount are $250,522,553 in domestic corporate bonds, $92,480,572 in international corporate securities, $26,837,620 in emerging market debt, and $502,910,874 in floating rate notes purchased with securities lending cash collateral. Corporate debt are instruments issued by private corporations. They have a term maturity and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Convertible Corporate Bonds – As of June 30, 2019, convertible bonds had a fair value of $243,875,226. Included in this amount are $225,252,749 in domestic convertible bonds and $18,622,477 in international convertible bonds. These bonds convey an option to the bondholder to exchange each bond for a specified number of shares of common stock of the corporation. Convertible bonds offer lower coupon rates and promised yields to maturity than do nonconvertible bonds. A variable coupon varies directly with movements in interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The risk is measured by the credit quality of investments in debt securities as described by nationally-recognized statistical rating organizations. A formal investment policy that limits investment in debt based on their statistical rating as a means of managing exposure to credit risk has not been adopted by any Board of Trustees. As of June 30, 2019, exposure to credit risk as rated by Standard and Poor's and Moody's Investors Service is as follows:

Standard and Poor's		Moody's Investors Service	
Rating	Fair Value	Rating	Fair Value
AAA	$ 18,605,039	Aaa	$ 412,523,058
AA	399,888,762	Aa	24,605,072
A	594,989,930	A	580,984,143
BBB	215,743,565	Baa	195,071,119
BB	67,795,104	Ba	61,439,051
B	33,414,127	B	36,564,549
CCC or below	25,439,706	Caa or below	17,788,941
Not Rated	420,779,523	Not Rated	447,679,823
Total	$ 1,776,655,756	Total	$ 1,776,655,756
Securities lending collateral			
AAA	$ 196,524,252	Aaa	$ 150,220,797
AA	331,036,704	Aa	389,626,074
A	174,406,169	A	89,330,897
CCC or below	2,429,623	Caa or below	2,429,623
		P-1	2,532,000
Not Rated	330,667,522	Not Rated	400,924,879
Total	$ 1,035,064,270	Total	$ 1,035,064,270

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the respective plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the plan's name. A formal investment policy for custodial credit risk has not been adopted by any Board of Trustees. As of June 30, 2019, no investments were exposed to custodial credit risk.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer (not including investments issued or explicitly guaranteed by the U.S. Government, investments in mutual funds, external investment pools, or other pooled investments). A formal investment policy for concentration of credit risk has not been adopted by any Board of Trustees. As of June 30, 2019, no investments in any one issuer represented more than 5% of total investments of an individual plan.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. A formal investment policy for foreign currency risk has not been adopted by any Board of Trustees. As of June 30, 2019, exposure to foreign currency risk in U.S. dollars for investments and deposits is as follows:

Currency		Total Exposure	Equities	Foreign Currency Contracts	Investment Principal Receivable	Investment Principal Payable	Accrued Income	Cash Deposits
Australian Dollar	AUD	$ 21,413,702	$ 21,390,491				$ 23,211	
Brazilian Real	BRL	6,038,496	6,016,281				22,215	
British Pound Sterling	GBP	212,180,583	211,766,660	$ (833,851)	$ 1,842,539	$ (1,081,571)	486,806	
Canadian Dollar	CAD	51,291,788	51,332,956	153,195		(386,048)	191,685	
Chinese Yuan Renminbi	CNY	(10,434,906)		(10,434,906)				
Danish Krone	DKK	21,339,787	20,401,954	291,258		(291,258)	937,833	
Euro	EUR	248,264,143	246,532,951	713,922	1,489,951	(1,905,491)	1,432,810	
Hong Kong Dollar	HKD	41,042,739	41,042,739					
Israeli Shekel	ILS	5,901,966	5,901,966					
Japanese Yen	JPY	138,104,418	141,153,038	(4,398,048)			1,349,428	
Malaysian Ringgit	MYR	4,680,145	4,680,145					
Mexican Nuevo Peso	MXN	2,849,432	2,849,432					
Norwegian Krone	NOK	5,640,874	5,596,731	135,389		(135,389)	44,143	
Singapore Dollar	SGD	19,084,593	19,084,593					
South African Rand	ZAR	13,249,829	13,249,829					
South Korean Won	KRW	47,439,385	47,125,757	(94,221)	176,627		231,222	
Swedish Krona	SEK	40,908,045	41,369,556	581,613		(1,043,893)	769	
Swiss Franc	CHF	146,642,062	143,157,978	(278,648)	955,542	(808,411)	3,615,601	
Totals		$ 1,015,637,081	$ 1,022,653,057	$ (14,164,297)	$ 4,464,659	$ (5,652,061)	$ 8,335,723	$ 0

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

Concentrations of Investments – Generally accepted accounting principles require each pension plan to disclose investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5% or more of fiduciary net position. As of June 30, 2019, no investments in any one organization made by an individual plan represented 5% or more of the fiduciary net position of that plan.

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Derivatives – Derivative instruments are financial contracts or agreements whose value is derived from one or more underlying assets, reference rates, and/or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, option contracts, and forward foreign currency exchange. Through its external investment managers, the plans could hold such instruments. The external investment managers could enter into swaps and futures contracts to gain or hedge exposure to certain markets, to manage interest rate risk, and to use forward foreign exchange contracts primarily to hedge foreign currency exposure. Investments in limited partnerships and commingled or pooled funds may include derivatives that are not shown in any derivative totals. There is a risk that the counterparties to the contracts will not be able to meet the contract terms. The external investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures.

The fair value balances of derivative instruments outstanding at June 30, 2019, classified by type, and the changes in fair value of such derivative instruments for the year then ended, are as follows:

	Changes in Fair Value		Fair Value at June 30, 2019	
Type	Classification	Amount	Classification	Amount
Foreign currency forwards	Net increase (decrease) in fair value of investments	$ (697,997)	Investment derivatives	$ 36,016
Futures	Net increase (decrease) in fair value of investments	689,758	Investment derivatives	389,164
Totals		$ (8,239)		$ 425,180

Foreign Currency Forwards – A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as net increase (decrease) in fair value of investments in the Statement of Changes in Fiduciary Net Position. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net increase (decrease) in fair value of investments in the Statement of Changes in Fiduciary Net Position. As of June 30, 2019, derivative contracts to purchase foreign currencies totaled $2,397,106. Market values of these outstanding contracts were $2,422,761, resulting in a net gain of $25,655. Contract amounts to sell foreign currencies totaled $17,266,077. Market values of these contracts were $17,255,716, resulting in a net gain of $10,361.

As of June 30, 2019, the net fair value of foreign currency forwards and the net notional amounts outstanding are as follows:

Foreign Currency Forward	Amount	Net Notional	
Chinese Yuan Renminbi	$ 174,379	CNY	(71,790,795)
Japanese Yen	(138,363)	JPY	(473,069,891)
Total	$ 36,016		

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Futures – A financial future is a contractual obligation to purchase or sell assets at a predetermined date and price. These contracts are traded on an organized exchange and are used to improve yield, adjust duration of the portfolio, circumvent changes in interest rates, or replicate an index. Risks associated with such contracts include movement in interest rates and the ability of the counterparty to perform. As of June 30, 2019, the fair value and notional amounts of futures are as follows

Futures Contract	Expiration	Amount	Notional
U.S. 2-year treasury note	September 2019	$ 237,406	USD $ 28,400,000
U.S. 5-year treasury note	September 2019	(445,899)	USD (21,300,000)
U.S. 10-year treasury note	September 2019	479,250	USD 14,200,000
U.S. ultra 10-year treasury note	September 2019	19,063	USD 1,900,000
U.S. treasury long bond	September 2019	(339,265)	USD (4,800,000)
U.S. ultra bond	September 2019	438,609	USD 5,200,000
Total		$ 389,164	

Securities Lending Transactions – The APERS Board of Trustees' policies permit APERS to enter into securities lending transactions, whereby securities are lent to broker-dealers or other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. APERS's securities lending program is administrated by the Bank of New York Mellon (the "Custodian"). The legal and contractual authorization for the securities lending program is contained in the Securities Lending Discretionary Agency Agreement between APERS and the Custodian. There were no restrictions on the amount of security loans that can be made, and for the year ended June 30, 2019, there were no violations of the Agency Agreement. Collateral must be provided in the amount of 102% for domestic loans and 105% for international loans. Securities on loan (Underlying Securities) to participating brokers at year-end include U.S. government securities, corporate securities, and international securities. Brokers who borrow the securities provide collateral in the form of government securities, letters of credit, and cash collateral. At year-end, there was no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed. The Custodian provides for full indemnification for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or to pay the trust funds for income of the securities while on loan. Collateral securities received cannot be pledged or sold unless the borrower defaults. Cash collateral received is invested and appears as an asset on the Statement of Fiduciary Net Position. A corresponding liability is recorded, as the cash collateral must be returned to the borrower upon expiration of the loan. The loan maturity dates generally do not match the maturity dates of the investments made with cash collateral received. The cash collateral investments had a weighted average maturity of 323 days on June 30, 2019, whereas the loan maturity was 23 days.

G. Capital Assets

Capital assets with costs exceeding $5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the item was purchased.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

Assets:	Years
Equipment	5-20
Intangibles	4-95

Capital assets activity for the year ended June 30, 2019, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Fiduciary activities:				
Equipment	$ 207,486		$ 15,436	$ 192,050
Intangible assets	21,239,594			21,239,594
Less accumulated depreciation	2,712,953	$ 2,175,693	15,436	4,873,210
Fiduciary activities, net	$ 18,734,127	$ (2,175,693)	$ 0	$ 16,558,434

H. Compensated Absences – Employee Leave

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

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

Compensated absences attributable to employee annual and sick leave as of June 30, 2019 and 2018, amounted to $417,191 and $376,484, respectively. The net change to compensated absences payable during the year ended June 30, 2019, amounted to $40,707.

I. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

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

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed $450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer. The portion of the State's annual OPEB liability attributable to APERS as of June 30, 2019, is $4,802,010.

J. Contributions and Reserves

Contributions

The general financial objective of all Arkansas public employee retirement plans is to have rates of contribution that remain relatively level for Arkansas citizens from generation to generation. Any employee contributions are refundable if covered employment terminates before a monthly benefit is payable. Below are the contribution provisions for each plan.

Public Employees Retirement Plan – Contribution provisions applicable to the participating employers are established by the APERS Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly, certain municipal and county elected officials, and certain agencies employing individuals in public safety positions must also remit additional contributions. Ark. Code Ann. § 24-4-401 requires all contributory members to contribute 5% of annual compensation.

Employer contribution rates during the fiscal year ended June 30, 2019, as a percentage of active member payroll, are as follows

State, County, Municipal, and Non-State Divisions	15.32%
Wildlife Officers and Military Department Civilian Firefighters Subdivisions	27.32%
District Judge Division	38.99%
School Division	4.00%

State Police Retirement Plan – Employer contribution provisions for the State Police retirement plan are established by Ark. Code Ann. § 24-6-209 at 22% of active member payroll. For any remaining members still employed and covered by the Tier One contributory plan, the employee contribution rate established by Ark. Code Ann. § 24-6-208 is 9.25% of the member's salary.

Additionally, in accordance with Ark. Code Ann. § 24-6-209(b), the State makes an annual transfer to the plan by computing the dollar amount required based on the actuarially-determined employer rate in the most recent annual actuarial valuation and subtracting from that amount the employer statutory contribution and the driver's license reinstatement fees. The State's supplemental contribution during FY2019 under this provision of law amounted to $8,035,961.

Judicial Retirement Plan – Employer contribution provisions for the judicial retirement plan are established by Ark. Code Ann. § 24-8-210 for Tier One and by Ark. Code Ann. § 24-8-707 for Tier Two at 12% of active member payroll. Contributory members are required to contribute 6% of their annual salary for Tier One and 5% for Tier Two. Employee contributions are no longer required for Tier One members when a judge is certified eligible for retirement or for Tier Two when a judge or justice has sufficient service to receive the maximum benefit under the plan provisions.

NOTE 1: Summary of Significant Accounting Policies (Continued)

J. Contributions and Reserves (Continued)

Contributions (Continued)

Additionally, in accordance with Ark. Code Ann. § 24-8-210(b), the State makes an annual transfer to the plan by computing the dollar amount required based on the actuarially-determined employer rate in the most recent annual actuarial valuation and subtracting from that amount the employer statutory contribution amount and the court cost revenue received. The State's supplemental contribution during FY2019 under this provision of law amounted to $5,009,400.

Reserves

The reserve accounts are an allocation of the net position restricted for pensions and do not limit the availability of assets to be used for existing pensions or pension administration. They are made to comply with the provisions of Arkansas Code or the decisions of plan management. The reserve balances at June 30, 2019, are as follows:

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan	Total
Members' deposit account reserve	$ 418,773,321	$ 574,799	$ 14,957,126	$ 434,305,246
Employer's accumulation account reserve	2,105,337,572	42,852,052	91,988,913	2,240,178,537
Retirement reserve	5,592,994,760	279,483,489	158,101,491	6,030,579,740
December 31, 2004, accrued liability reserve	19,917,316			19,917,316
Undistributed reserves	696,304,690	14,828,672	2,231,957	713,365,319
Totals	$ 8,833,327,659	$ 337,739,012	$ 267,279,487	$ 9,438,346,158

K. Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

L. Federal Income Tax Status

During the year ended June 30, 2019, all plans qualified under 26 USC § 401(a) and were exempt from federal income taxes under 26 USC § 501(a).

NOTE 2: Deferred Retirement Option Program (DROP)

	Deferred Retirement Option Program by Retirement Plan		
		State Police	
	Public Employees	Tier One	Tier Two
Authority for Program:	Ark. Code Ann. §§ 24-4-801 – 24-4-806	Ark. Code Ann. §§ 24-6-301 – 24-6-307	Ark. Code Ann. §§ 24-6-501 – 24-6-508
Participation Eligibility:	Members with 28 years of actual service subject to an early participation reduction of one-half of 1% for each month away from 30 years or 30 years of actual service with no reduction in benefits. Member election to enter the DROP is irrevocable, and additional service credit in any state-supported retirement system cannot be accumulated.	Members with 30 years of credited service who are eligible to receive a service retirement pension and have been approved by the ASPRS Board of Trustees. Member election to enter the DROP is irrevocable, and additional service credit in any state-supported retirement system cannot be accumulated.	Members with 30 years of actual service as a member of the Tier Two plan who are eligible to receive a service retirement pension and have been approved by the ASPRS Board of Trustees. Member election to enter the DROP is irrevocable, and additional service credit in any state-supported retirement system cannot be accumulated.
Period of Participation:	The maximum period of participation is seven years, at which time employment must terminate.	The maximum period of participation is seven years, at which time employment with the Department of Arkansas State Police must terminate.	The maximum period of participation is seven years, at which time employment with the Department of Arkansas State Police must terminate.
Amount of Benefit Credited to the Member's Account:	Members receive 75% of their monthly retirement benefit subject to the participation reduction shown in "Participation Eligibility."	Members receive 100% of their monthly retirement benefit.	Members receive 72% of their monthly retirement benefit.
Interest Rate Credited to the Member's Account:	The interest rate is set by the APERS Board of Trustees and credited to the individual's account balance annually at the end of the fiscal year. For FY2019, the rate was 2.75%	The interest rate is adjusted by the ASPRS Board of Trustees as needed and credited to the individual's account balance annually at the end of the fiscal year. The rate cannot be greater than 5% or less than 1%. For FY2019, the rate was 3.25%	The interest rate is adjusted by the ASPRS Board of Trustees as needed and credited to the individual's account balance annually at the end of the fiscal year. The rate cannot be greater than 5% or less than 1%. For FY2019, the rate was 3.25%
Balance held by the Plan at June 30, 2019	$95,137,137	$11,598,498	The DROP for Tier Two did not begin until 2009. As of June 30, 2019, there were no participants.

State law does not authorize members of the judicial retirement plan to participate in a deferred retirement option.

NOTE 3: Net Pension Liability of Participating Employers

For each retirement plan, the components of the net pension liability of the participating employers at June 30, 2019, were as follows:

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan
Total pension liability	$ 11,245,856,457	$ 458,133,785	$ 284,488,459
Less: plan net position	8,833,327,659	337,739,012	267,279,487
Employers' net pension liability	$ 2,412,528,798	$ 120,394,773	$ 17,208,972
Plan net position as a percentage of the total pension liability	78.55%	73.72%	93.95%

Actuarial Assumptions – The total pension liability for each retirement plan was determined by an actuarial valuation as of June 30, 2019. The actuarial assumptions used in the valuation and adopted by the respective Boards of Trustees were applied to all prior periods included in the measurement. The actuarial experience study period and the significant assumptions and other inputs used to measure the total pension liability are as follows:

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan
Actuarial study period	7/01/2012 – 6/30/2017	7/01/2012 – 6/30/2017	7/01/2011 – 6/30/2016
Wage inflation rate	3.25%	3.25%	3.25%
Salary increases	3.25% - 9.85%	3.25% - 7.75%	3.25%
Investment rate of return*	7.15%	7.15%	5.75%

*Net of investment and administrative expenses.

Mortality Tables Public Employees Retirement Plan – Mortality rates used for members of the public employees retirement plan were based on the RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

Mortality Tables State Police Retirement Plan – Mortality rates used for members of the State Police retirement plan were based on the RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.

Mortality Tables Judicial Retirement Plan – Mortality rates used for members of the judicial retirement plan was based on the RP-2014 tables adjusted for mortality improvement back to the observation period base year of 2006 for healthy annuitant, disability, or employee death in services, as applicable. It was assumed that 100% of pre-retirement deaths would be non-duty related. Mortality rates for a particular calendar year were determined by applying the MP-2016 improvement scale to the tables described above.

NOTE 3: Net Pension Liability of Participating Employers (Continued)

Long-Term Rate of Return All Retirement Plans – The long-term expected rate of return on all 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 current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2019 – 2028 were based upon capital market assumptions provided by each plan's investment consultant. For each major asset class included in the respective pension plan's current asset allocation as of June 30, 2019, these best estimates are summarized in the following table:

	Public Employees and State Police Retirement Plans		Judicial Retirement Plan	
Asset Allocation	Target	Long-Term Expected Real Rate of Return	Target	Long-Term Expected Real Rate of Return
Broad domestic equity	37.00%	6.20%	37.00%	6.21%
International equity	24.00%	6.33%	15.00%	6.79%
Real assets	16.00%	3.32%		
Real estate			8.00%	5.02%
Absolute return	5.00%	3.56%		
Domestic fixed	18.00%	1.54%	40.00%	1.56%
Cash equivalents				0.25%
	100.00%		100.00%	

Discount Rate Public Employees and State Police Retirement Plans – A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially-determined contribution rates and the member rate. Based on these assumptions, the public employees and State Police retirement plans' 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.

Discount Rate Judicial Retirement Plan – A single discount rate of 5.75% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 5.75%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially-determined contribution rate and the member rate. Based on these assumptions, the judicial retirement 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.

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

NOTE 3: Net Pension Liability of Participating Employers (Continued)

	Sensitivity of the Net Pension Liability to Changes in the Discount Rate		
Net Pension Liability	1% Lower than Current Rate	Current Rate	1% Higher than Current Rate
Public Employees Retirement Plan - current rate 7.15%	$ 3,866,681,553	$ 2,412,528,798	$ 1,212,786,366
State Police Retirement Plan - current rate 7.15%	175,526,247	120,394,773	74,571,635
Judicial Retirement Plan - current rate 5.75%	51,551,276	17,208,972	(11,880,456)

NOTE 4: Required Supplementary Schedules

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

Schedule 1

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - PUBLIC EMPLOYEES RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY						
Service cost	$ 189,567,873	$ 181,557,602	$ 174,663,657	$ 169,112,935	$ 168,811,990	$ 160,924,334
Interest	759,163,751	745,846,405	719,134,258	692,210,941	682,217,546	658,535,986
Changes in benefit terms	(62,984)					
Differences between actual and expected experience	60,093,169	(6,960,593)	62,849,281	2,912,566	(137,672,890)	(23,038,076)
Changes in assumptions		(180,097,868)	416,146,405		192,273,597	214,798,742
Benefit payments, including refunds of plan member contributions	(571,592,525)	(544,595,643)	(521,962,553)	(494,105,931)	(464,111,187)	(424,003,993)
NET CHANGE IN TOTAL PENSION LIABILITY	437,169,284	195,749,903	850,831,048	370,130,511	441,519,056	587,216,993
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	10,808,687,173	10,612,937,270	9,762,106,222	9,391,975,711	8,950,456,655	8,363,239,662
TOTAL PENSION LIABILITY - END OF YEAR (A)	$ 11,245,856,457	$ 10,808,687,173	$ 10,612,937,270	$ 9,762,106,222	$ 9,391,975,711	$ 8,950,456,655
PLAN NET POSITION						
Contributions - employer	$ 293,013,343	$ 276,251,473	$ 261,656,384	$ 263,172,688	$ 262,327,562	$ 264,477,703
Contributions - plan members	68,206,685	64,708,128	58,500,339	55,912,833	51,596,001	48,237,869
Supplemental contributions	561,766	555,151	407,363	404,433	392,653	381,217
Net investment income, including securities lending activity	450,493,098	782,326,767	862,824,701	(4,177,314)	169,621,019	1,208,430,494
Benefit payments, including refunds of plan member contributions	(571,592,525)	(544,595,643)	(521,962,553)	(494,105,931)	(464,111,187)	(424,003,993)
Administrative expense	(13,566,062)	(10,864,271)	(9,068,778)	(6,929,103)	(6,952,041)	(6,854,976)
Other	3,459,222	5,573,737	5,681,184	6,238,203	5,823,915	6,058,445
NET CHANGE IN PLAN NET POSITION	230,575,527	573,955,342	658,038,640	(179,484,191)	18,697,922	1,096,726,759
PLAN NET POSITION - BEGINNING OF YEAR	8,602,752,132	8,028,796,790	7,370,758,150	7,550,242,341	7,531,544,419	6,434,817,660
PLAN NET POSITION - END OF YEAR (B)	$ 8,833,327,659	$ 8,602,752,132	$ 8,028,796,790	$ 7,370,758,150	$ 7,550,242,341	$ 7,531,544,419
PARTICIPATING EMPLOYERS' NET PENSION LIABILITY (ASSET) END OF YEAR (A) - (B)	$ 2,412,528,798	$ 2,205,935,041	$ 2,584,140,480	$ 2,391,348,072	$ 1,841,733,370	$ 1,418,912,236
Plan net position as a percentage of total pension liability	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%
Covered employee payroll	$ 1,936,042,263	$ 1,849,202,619	$ 1,788,074,570	$ 1,795,174,463	$ 1,757,056,813	$ 1,748,350,136
Participating employers' net pension liability (asset) as a percentage of covered employee payroll	124.61%	119.29%	144.52%	133.21%	104.82%	81.16%

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - STATE POLICE RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY						
Service cost	$ 6,691,528	$ 6,577,148	$ 5,473,626	$ 5,488,445	$ 6,101,608	$ 4,866,199
Interest	31,299,758	30,678,211	30,322,786	29,469,678	29,218,802	28,558,511
Changes in benefit terms						
Differences between actual and expected experience	(1,805,446)	467,389	(3,052,763)	1,757,687	(3,107,531)	(454,349)
Changes in assumptions		(4,529,133)	15,875,267		8,703,080	8,970,858
Benefit payments, including refunds of plan member contributions	(24,930,275)	(24,185,418)	(24,631,787)	(26,035,466)	(23,358,801)	(21,688,239)
NET CHANGE IN TOTAL PENSION LIABILITY	11,255,565	9,008,197	23,987,129	10,680,344	17,557,158	20,252,980
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	446,878,220	437,870,023	413,882,894	403,202,550	385,645,392	365,392,412
TOTAL PENSION LIABILITY - END OF YEAR (A)	$ 458,133,785	$ 446,878,220	$ 437,870,023	$ 413,882,894	$ 403,202,550	$ 385,645,392
PLAN NET POSITION						
Contributions - employer	$ 6,727,409	$ 6,515,063	$ 6,416,736	$ 6,581,580	$ 6,409,752	$ 6,443,379
Contributions - plan members	27,515	133,860	43,037	30,170	94,814	
Supplemental contributions	8,035,961	7,109,703	6,693,915	6,233,769	6,574,376	5,957,541
State-collected fees allocated to pension plan	6,463,108	7,245,013	6,807,370	6,867,765	6,800,002	7,100,757
Net investment income, including securities lending activity	17,031,483	28,823,344	31,484,258	(210,034)	6,131,690	43,307,753
Benefit payments, including refunds of plan member contributions	(24,930,275)	(24,185,418)	(24,631,787)	(26,035,466)	(23,358,801)	(21,688,239)
Administrative expense	(393,754)	(70,967)	(50,961)	(47,879)	(41,898)	(38,363)
Other	(160,686)	(157,464)	(157,463)	(157,463)	(154,334)	(151,294)
NET CHANGE IN PLAN NET POSITION	12,800,761	25,413,134	26,605,105	(6,737,558)	2,455,601	40,931,534
PLAN NET POSITION - BEGINNING OF YEAR	324,938,251	299,525,117	272,920,012	279,657,570	277,201,969	236,270,435
PLAN NET POSITION - END OF YEAR (B)	$ 337,739,012	$ 324,938,251	$ 299,525,117	$ 272,920,012	$ 279,657,570	$ 277,201,969
PARTICIPATING EMPLOYER'S NET PENSION LIABILITY (ASSET) END OF YEAR (A) - (B)	$ 120,394,773	$ 121,939,969	$ 138,344,906	$ 140,962,882	$ 123,544,980	$ 108,443,423
Plan net position as a percentage of total pension liability	73.72%	72.71%	68.41%	65.94%	69.36%	71.88%
Covered employee payroll	$ 30,287,691	$ 29,593,145	$ 29,076,764	$ 29,448,593	$ 29,929,358	$ 28,548,873
Participating employer's net pension liability (asset) as a percentage of covered employee payroll	397.50%	412.05%	475.79%	478.67%	412.79%	379.85%

Schedule 3

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
JUDICIAL RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY						
Service cost	$ 6,919,400	$ 6,927,257	$ 7,221,153	$ 7,230,267	$ 5,342,168	$ 5,319,836
Interest	15,877,675	15,378,982	16,121,127	15,770,309	14,883,382	14,607,426
Changes in benefit terms						
Differences between actual and expected experience	(4,481,503)	(743,902)	(3,462,751)	(5,184,045)	12,969,853	(5,751,106)
Changes in assumptions			2,369,244		24,290,229	
Benefit payments, including refunds of plan member contributions	(13,001,793)	(12,769,175)	(12,389,433)	(12,008,338)	(10,777,191)	(9,984,856)
NET CHANGE IN TOTAL PENSION LIABILITY	5,313,779	8,793,162	9,859,340	5,808,193	46,708,441	4,191,300
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	279,174,680	270,381,518	260,522,178	254,713,985	208,005,544	203,814,244
TOTAL PENSION LIABILITY - END OF YEAR (A)	$ 284,488,459	$ 279,174,680	$ 270,381,518	$ 260,522,178	$ 254,713,985	$ 208,005,544
PLAN NET POSITION						
Contributions - employer	$ 2,712,974	$ 2,759,107	$ 2,687,850	$ 2,675,356	$ 2,449,709	$ 2,350,441
Contributions - plan members	1,030,430	1,016,180	1,062,471	1,025,141	948,233	932,192
Supplemental contributions	5,009,400	5,075,248	5,210,693	2,285,337	2,629,192	2,995,131
State-collected fees allocated to pension plan	511,585	586,818	586,818	586,818	609,388	764,882
Net investment income	14,655,822	19,162,125	28,044,871	(1,744,076)	9,971,831	29,793,118
Benefit payments, including refunds of plan member contributions	(13,001,793)	(12,769,175)	(12,389,433)	(12,008,338)	(10,777,191)	(9,984,856)
Administrative expense	(37,011)	(34,009)	(60,401)	(50,119)	(31,648)	(25,866)
Other	(110,050)	(107,812)	(108,790)	(108,301)	(106,303)	(104,663)
NET CHANGE IN PLAN NET POSITION	10,771,357	15,688,482	25,034,079	(7,338,182)	5,693,211	26,720,379
PLAN NET POSITION - BEGINNING OF YEAR	256,508,130	240,819,648	215,785,569	223,123,751	217,430,540	190,710,161
PLAN NET POSITION - END OF YEAR (B)	$ 267,279,487	$ 256,508,130	$ 240,819,648	$ 215,785,569	$ 223,123,751	$ 217,430,540
PARTICIPATING EMPLOYER'S NET PENSION LIABILITY (ASSET) END OF YEAR (A) - (B)	$ 17,208,972	$ 22,666,550	$ 29,561,870	$ 44,736,609	$ 31,590,234	$ (9,424,996)
Plan net position as a percentage of total pension liability	93.95%	91.88%	89.07%	82.83%	87.60%	104.53%
Covered employee payroll	$ 23,602,735	$ 23,434,639	$ 22,917,870	$ 22,308,000	$ 22,308,000	$ 19,781,628
Participating employer's net pension liability (asset) as a percentage of covered employee payroll	72.91%	96.72%	128.99%	200.54%	141.61%	-47.65%

Schedule 4

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF CONTRIBUTIONS – PUBLIC EMPLOYEES RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
Actuarially-determined contribution	$ 296,601,675	$ 272,757,386	$ 259,270,813	$ 260,300,297	$ 259,341,856	$ 260,154,500
Actual contributions	293,501,408	276,784,232	261,830,210	263,181,645	262,353,291	263,080,479
Contribution deficiency (excess)	$ 3,100,267	$ (4,026,846)	$ (2,559,397)	$ (2,881,348)	$ (3,011,435)	$ (2,925,979)
Covered employee payroll	$ 1,936,042,263	$ 1,849,202,619	$ 1,788,074,570	$ 1,795,174,463	$ 1,757,056,813	$ 1,748,350,136
Actual contributions as a percentage of covered employee payroll	15.16%	14.97%	14.64%	14.66%	14.93%	15.05%

Schedule 5

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF CONTRIBUTIONS – STATE POLICE RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
Actuarially-determined contribution	$ 15,576,959	$ 15,391,395	$ 14,122,584	$ 14,285,512	$ 14,171,551	$ 13,683,475
Actual contributions:						
Employer*	6,687,160	6,461,032	6,409,203	6,587,211	6,458,317	6,405,887
Annual transfer from the State	8,035,961	7,109,703	6,693,915	6,233,769	6,574,376	5,957,541
Driver's license reinstatement fees	1,014,554	1,606,181	1,164,959	1,231,566	1,222,352	1,387,728
Total Actual Contributions	15,737,675	15,176,916	14,268,077	14,052,546	14,255,045	13,751,156
Contribution deficiency (excess)	$ (160,716)	$ 214,479	$ (145,493)	$ 232,966	$ (83,494)	$ (67,681)
Covered employee payroll	$ 30,287,691	$ 29,593,145	$ 29,076,764	$ 29,448,593	$ 29,929,358	$ 28,548,873
Actual contributions as a percentage of covered employee payroll	51.96%	51.29%	49.07%	47.72%	47.63%	48.17%

*The employer contribution rate is established by Arkansas Code at 22% of active member payroll.

Schedule 6

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF CONTRIBUTIONS – JUDICIAL RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
Actuarially-determined contribution	$ 8,466,301	$ 8,757,525	$ 8,706,499	$ 5,597,077	$ 6,496,090	$ 6,223,300
Actual contributions:						
Employer*	2,712,974	2,759,107	2,687,850	2,675,356	2,449,709	2,350,441
Annual transfer from the State	5,009,400	5,075,248	5,210,693	2,285,337	2,629,192	2,995,131
Designated court fees	511,585	586,818	586,818	586,818	609,388	764,883
Total Actual Contributions	8,233,959	8,421,173	8,485,361	5,547,511	5,688,289	6,110,455
Contribution deficiency (excess)	$ 232,342	$ 336,352	$ 221,138	$ 49,566	$ 807,801	$ 112,845
Covered employee payroll	$ 23,602,735	$ 23,434,639	$ 22,917,870	$ 22,308,000	$ 22,308,000	$ 19,781,628
Actual contributions as a percentage of covered employee payroll	34.89%	35.93%	37.03%	24.87%	25.50%	30.89%

*The employer contribution rate is established by Arkansas Code at 12% of active member payroll.

Schedule 7

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF INVESTMENT RETURNS – PUBLIC EMPLOYEES RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	5.31%
2018	9.89%
2017	11.89%
2016	-0.06%
2015	2.28%
2014	18.97%

Schedule 8

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF INVESTMENT RETURNS – STATE POLICE RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	5.36%
2018	9.82%
2017	11.82%
2016	-0.08%
2015	2.26%
2014	18.75%

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
SIX-YEAR SCHEDULE OF INVESTMENT RETURNS – JUDICIAL RETIREMENT PLAN
FOR THE SIX-YEAR PERIOD ENDED JUNE 30, 2019

	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	5.72%
2018	7.94%
2017	12.93%
2016	-0.79%
2015	4.60%
2014	15.63%

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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

A. Changes in benefit terms

Public Employees and State Police Retirement Plans – No changes in benefit terms.

Judicial Retirement Plan – No changes in benefit terms.

B. Changes in assumptions

Public Employees and State Police Retirement Plans – No changes in economic or non-economic assumptions.

Judicial Retirement Plan – No changes in economic or non-economic assumptions.

All actuary reports are available through APERS website at www.apers.org; by writing to APERS at 124 West Capital, Suite 400, Little Rock, Arkansas 72201; or by calling 1-501-682-7800.

C. Method and assumptions used in calculations of actuarially-determined contributions

Valuation date: The actuarially-determined contribution rates for the public employees retirement plan and the judicial retirement plan are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. The actuarially-determined contribution rate for the State Police retirement plan is calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

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

	Public Employees Retirement Plan	State Police Retirement Plan	Judicial Retirement Plan
Actuarially-determined contribution rate:	15.32%	51.43%*	35.87%*
Valuation date:	June 30, 2017	June 30, 2018	June 30, 2017
Actuarial cost method:	Entry age normal	Entry age normal	Entry age normal
Amortization method:	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining amortization period:	30-year closed	21-year closed	20-year assumption changes, 15-year others
Asset valuation method:	4-year smoothed market with 25% corridor	4-year smoothed market	4-year smoothed market with 25% corridor
Actuarial assumptions:			
Investment rate of return:	7.15%	7.15%	5.75%
Projected salary increases:	3.25 – 9.85%	3.55 – 7.75%	3.25%
Price inflation rate:	2.50%	2.50%	2.50%
Mortality table:	RP-2000 Mortality Tables	RP-2006 Mortality Tables	RP-2014 Mortality Tables

*The employer contribution rates for the State Police retirement plan and the judicial retirement plan are established by Arkansas Code at 22% and 12%, respectively.

NOTE 2: Differences between Exhibits and Required Supplementary Information

The purpose of the contribution-related schedules for each retirement plan shown at Schedules 4 – 6 is to present the trend of employers’ contributions in relation to employers’ actuarially-determined contributions. The employer contributions reported in Exhibit B include amounts submitted by employers for prior-year corrections and other immaterial amounts and may not agree with the schedules of contributions.

Schedule 10

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
OTHER GENERAL INFORMATION
JUNE 30, 2019
(UNAUDITED)

	For the Year Ended June 30,				
	2019	2018	2017	2016	2015
Total Assets	$ 10,545,376,332	$ 10,281,402,294	$ 9,397,796,092	$ 8,907,488,229	$ 9,151,542,941
Total Liabilities	1,106,828,985	1,097,203,781	828,654,048	1,048,024,498	1,098,519,279
Total Deferred Inflows of Resources	201,189				
Net Position Restricted for Pensions	9,438,346,158	9,184,198,513	8,569,142,044	7,859,463,731	8,053,023,662
Total Additions	879,595,983	1,208,474,662	1,278,535,081	346,131,772	532,732,171
Total Deductions	625,448,338	593,418,193	568,856,768	539,691,703	505,885,437