

Arkansas Public Employees Retirement System



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2002

Annual Financial Report

Arkansas Public Employees Retirement System

A Pension Trust Fund of
the State of Arkansas

Comprehensive Annual Financial Report

*For the Year Ended
June 30, 2002*

Prepared by

Arkansas Public Employees Retirement System
One Union National Plaza, Suite 400
124 West Capitol
Little Rock, AR 72201-1070

Gail H. Stone, Executive Director
Michele Williams, Deputy Director

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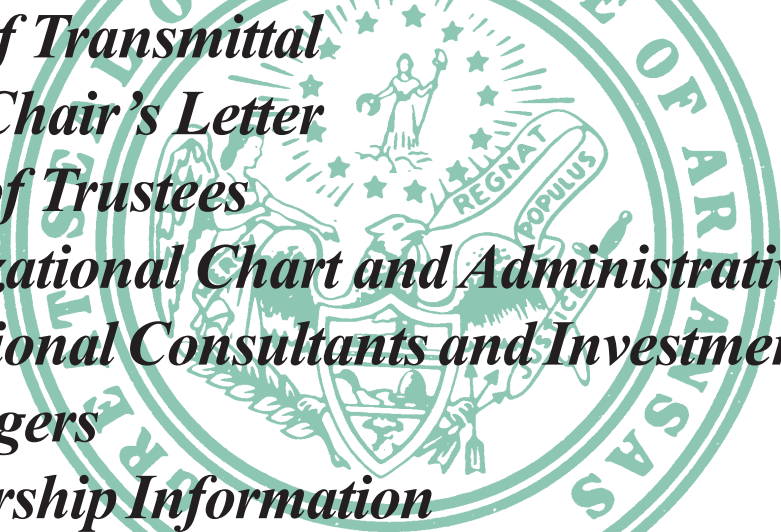
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Introduction



I



Letter of Transmittal
Board Chair's Letter
Board of Trustees
Organizational Chart and Administrative Staff
Professional Consultants and Investment
Managers
Membership Information



ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

One Union National Plaza • 124 West Capitol • Suite 400 • Little Rock, Arkansas 72201

November 22, 2002

APERS Board of Trustees
Arkansas Public Employees Retirement System
124 West Capitol Avenue
Little Rock AR 72201

Dear Board Members:

It is my honor to present to you the 2002 Annual Financial Report of the Arkansas Public Employees Retirement System ("APERS" or the "System") for the fiscal year ended June 30, 2002. The report evidences our continuing effort to provide reliable and timely information on the financial status of APERS and the changes therein for the fiscal year.

Accountability is the imperative of financial reporting. It insists that APERS resources be safeguarded and used for the benefit of all members, that transactions be executed only with the proper authorization of the board and management, and that transactions be recorded properly to permit the reporting of timely reliable financial information on the activities of the System.

Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial status of the System and changes therein.

APERS was established by legislation enacted in 1957 and has subsequently expanded to include State, County, Municipal, School, and other political subdivisions. A comprehensive list of all participating employers is provided at the end of the Statistical Section. The Summary of Plan Provisions is presented in the Actuarial Section. The mission of the System is to provide current and future retirement or survivor benefits for its members. All services provided by the staff are performed to meet that objective.

The APERS Annual Financial Report is presented in five sections: an Introductory Section, which contains the administrative organization, a letter of transmittal, and the Chairman's report; a Financial Section, which contains the report of the independent auditors, the financial statements of the System, and required supplementary information; an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains the Actuary's certification letter and the results of the Annual Actuarial Valuation; and a Statistical Section, which includes significant trend data pertaining to the System. I trust that you and the members of the System will find this annual report helpful in understanding your public employees' retirement system - a system that continues to maintain a strong and positive financial future.

ECONOMIC CONDITION AND OUTLOOK

The economic condition of the system is based primarily upon investment earnings. For the last five years, the System's annualized rate of return has been 4.46%. The System's investments are evaluated quarterly by Callan Associates, Inc. and compared to market indicators and comparable funds. A comparable analysis of rates of return is presented in the Investment Section.

FOR THE FUTURE

Despite the negative investment returns this year, it is important to recognize that the Arkansas Public Employees Retirement System maintains an actuarially sound basis as certified in this report by our actuary, thus protecting participants' future benefits. We anticipate that investment earnings will again meet or exceed actuarially assumed earnings rates in the coming years. The System remains fully funded.

FINANCIAL INFORMATION

The management of the System is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with Generally Accepted Accounting Principals. This System includes written policies and procedures adopted by the Board of Trustees and promulgated in accordance with the State's Administrative Procedures Act.

ADDITIONS

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. These additions for fiscal year 2002 totaled approximately (\$115.4) million (see Table I).

The overall additions decreased approximately \$33.7 million compared to those of fiscal year 2001 due primarily to lower investment earnings. The Investment Section of this report reviews activity and the results of the investment portfolio for fiscal year 2002. The fair value of the investments of the System exceeded \$3.7 billion on June 30, 2002, a decrease of approximately \$273.3 million from 2001.

TABLE 1. OPERATING ADDITIONS

Employer contributions	\$ 109,037,491
Employee contributions	221,186
Investment earnings	(232,741,183)
Miscellaneous additions	<u>8,066,949</u>
TOTAL	<u>\$ (115,415,557)</u>

DEDUCTIONS

The primary deductions of the System included the payment of benefits to members and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement system. Deductions for fiscal year 2002 totaled approximately \$157.9 million (see Table 2), an increase of approximately 13% over fiscal year 2001 deductions. The increase in benefit payments resulted primarily from an increase in both the number and average amount of benefits paid and cost-of-living increases granted. Net decrease in Plan net assets was approximately \$273.3 million during fiscal year 2002.

TABLE 2. OPERATING DEDUCTIONS

Benefit payments	\$ 153,007,132
Refunds of contributions	805,155
Administrative expenses	<u>4,067,319</u>
TOTAL	<u>\$ 157,879,606</u>

FUNDING

A pension fund is well funded when it has enough money in reserve to meet all earned future obligations to participants. The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater level of investment potential. The advantage of a well-funded plan is that the participants can be assured that sufficient assets exist which are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of the System as of June 30, 2002, amounted to \$4.4 billion and \$4.4 billion respectively. A detailed discussion of funding is provided in the Actuarial Section of this report. Funding status and progress for the System is presented in the required supplementary information in the Financial Section.

INVESTMENTS

The investments of the System are governed primarily by an investment authority known as the "Prudent Investor Rule". The rule established a standard for all fiduciaries, which included anyone that has investment authority with respect to the fund. The Prudent Investor Rule states that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. By permitting diversification of investments within a fund, the fund may reduce overall risks and increase returns. A summary of the asset allocation can be found in the Investment Section.

The Arkansas Investment Code permits the fund to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment managers appointed by the Board are listed in the Introductory Section. For fiscal year 2002, investments provided a (5.74%) rate of return. The System's annualized rate of return over the last three years was approximately (0.26%).

AUDIT

The System is audited each fiscal year by the Division of Legislative Audit.

ACTUARIAL SURVEY AND VALUATION

An actuarial review of the System is performed annually. The assumptions utilized by the actuary in performing the valuation are reviewed annually by the Board. The actuarial firm, Gabriel, Roeder, Smith & Company, completed the actuarial review and valuation and served as technical advisor to the System. Actuarial certification and supporting statistics are included in the Actuarial and Statistical Sections of this report.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined efforts of the staff under the leadership of the Arkansas Public Employees Retirement System Board of Trustees. It is intended to provide extensive and reliable information for making management decisions, determining compliance with legal provisions, and determining responsible stewardship for the assets contributed by the System's members and their employers.

We would like to take this opportunity to express our gratitude to the Board, the staff, the advisors, and the many people who have worked so diligently to ensure the successful operation and financial soundness of the Arkansas Public Employees Retirement System.

Sincerely yours,

A handwritten signature in cursive script that reads "Gail H. Stone".

Gail H. Stone
Executive Director



ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

One Union National Plaza • 124 West Capitol • Suite 400 • Little Rock, Arkansas 72201

November 26, 2002

Dear Members of the APERS Retirement System:

As a Board, we are pleased to report that the Arkansas Public Employees Retirement System continues to be of sound financial condition. The assets accumulated to pay your retirement benefits are carefully invested to insure necessary funding when your future benefits are due to you. As Board members, we serve as trustees to ensure that your interests are properly safeguarded. We have the responsibility and the mandate to provide retirement benefits to all participants commensurate with the valuable service each has rendered to the public.

In a fiscal year that included not only the tragedy of September 11th, 2001, but the virtual cascade of corporate accounting scandals as well, the Board has worked diligently to minimize the impact of these events through a well-diversified investment portfolio. While the rate of return for the year ending June 30, 2002 was (5.74%), APERS ranks above median in comparison with other public funds. We recognize our professional investment advisors and administrative staff for their solid performance in an exceedingly difficult market environment.

We commend the Governor and the General Assembly for their support and commitment to keep the System actuarially sound and funded in accordance with our funding plan.

As Board Chair, I assure you that the members of the Board have your best interests for future benefits and continued financial security always in mind as we direct investments and all other operations of the System. As your Board, we also recognize the dedication and excellent work of the entire staff of the retirement agency; they are committed to delivering the highest quality customer service.

On behalf of the APERS Board of Trustees,

Sincerely,

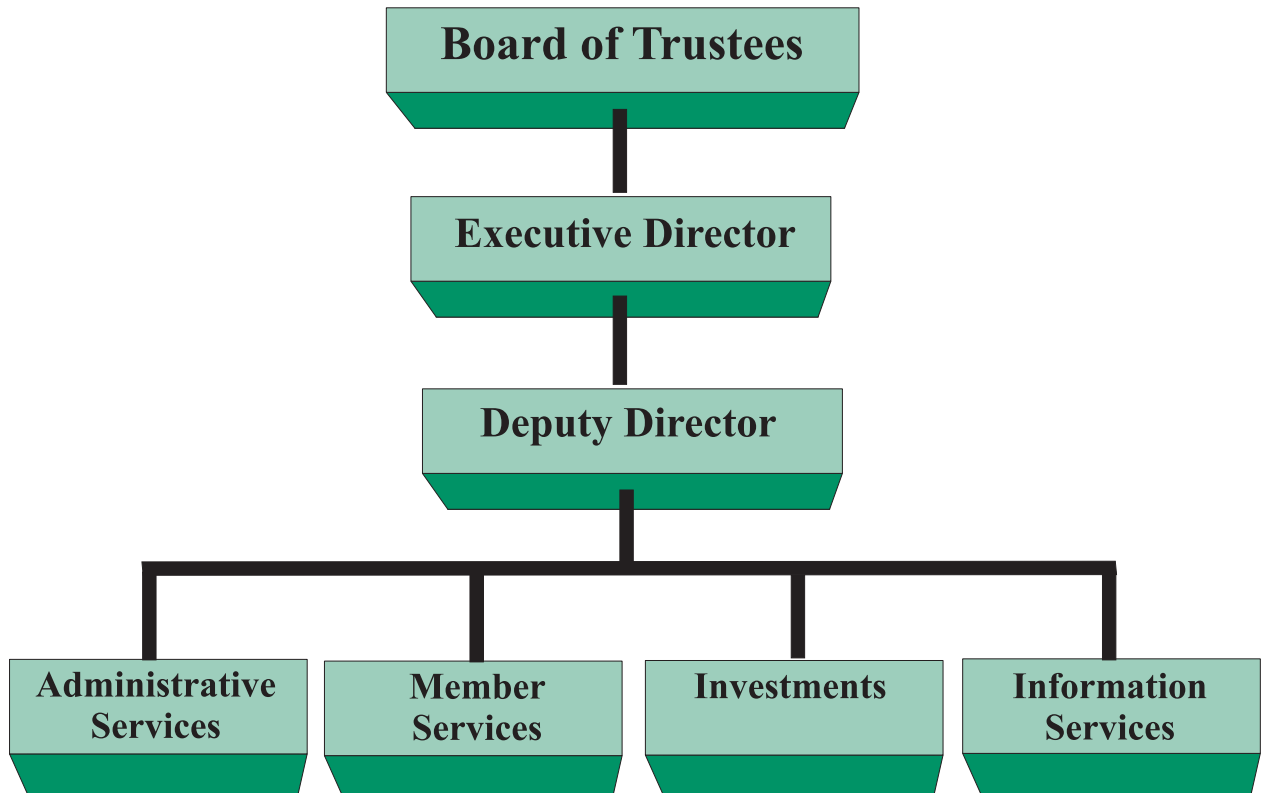
Ouida Wright
Board Chair

Board of Trustees

Member	Expiration Of Term
Ms. Ouida Wright Chair Quality Assurance Coordinator Conway Human Development Center	March 9, 2005
The Honorable Larry Fratesi Vice Chair Assessor, Jefferson County	March 9, 2003
The Honorable Jimmie Lou Fisher State Treasurer	Ex Officio Member
The Honorable Gus Wingfield State Auditor	Ex Officio Member
Mr. Richard Weiss Director, Department of Finance and Administration	Ex Officio Member
Mr. Edwin E. Waddell Sherwood, AR	March 9, 2002*
Mr. Don Zimmerman Executive Director, Municipal League	March 9, 2004
Mr. Jonathan R. Sweeney Deputy Director, Soil and Water Commission	March 9, 2007
Mr. Maurice Henry Hope Schools	March 9, 2006

* No reappointment made as of June 30, 2002

Organizational Chart



Administrative Staff

Gail H. Stone, Executive Director
Michele Williams, Deputy Director
Becky Walker, Administrative Services Manager
Jackie Parrish, Member Services Manager
Susan Bowers, Associate Director, Investments
Jon Aucoin, Information Services Manager

Professional Consultants

Actuary

Gabriel, Roeder, Smith & Company

Actuaries & Consultants
One Town Square, Suite 800
Southfield, MI 48076

Custodial Bank

The Bank of New York

One Wall Street
New York, NY 10286

Investment Consultant

Callan Associates, Inc.

Six Concourse Parkway, Suite 2900
Atlanta, GA 30328-6111

Investment Managers

INVESCO Capital Management

1166 Avenue of the Americas
New York, NY 10036

The Bank of New York

One Wall Street
New York, NY 10286

INVESCO Realty Advisors

One Lincoln Centre, Suite 700
Dallas, TX 75240

Prudential Timber Investments, Inc.

800 Boylston Street
Boston, MA 02199

Deutsche Asset Management

150 South Independence Square West
Philadelphia, PA 19106

J. & W. Seligman & Co., Inc.

100 Park Avenue
New York, NY 10017

Pareto Partners

505 Park Avenue
New York, NY 10022-1106

Prudential Investments, Inc.

Two Gateway Center
Newark, NJ 07102

Loomis, Sayles & Co.

39533 Woodward Avenue, Suite 300
Bloomfield Hills, MI 48304

Froley, Revy Investment Company, Inc.

10900 Wilshire Boulevard, Suite 1050
Los Angeles, CA 90024

UBS Global Asset Management

One North Wacker Drive
Chicago, IL 60606

Wellington Management Company

75 State Street
Boston, MA 02109

Lazard Asset Management

30 Rockefeller Plaza
New York, NY 10020

MacKay Shields

9 West 57th Street
New York, NY 10019

Dresdner RCM Global Investors, LLC

Four Embarcadero Center
San Francisco, CA 94111

American Express Asset Management

50209 AXP Financial Center
Minneapolis, MN 55474

INVESCO National Asset Management

400 West Market Street
Louisville, KY 40202

Westwood Management

300 Crescent Court, Suite 1300
Dallas, TX 75201

*Membership Information
As of June 30, 2002*

Active Members

Number	42,230
Average Age	44
Average Years	9.3
Average Annual Salary	\$26,349

Inactive-Vested Members

8,361

Total Retirees

Number	17,748
Average Monthly Benefit	\$ 787

2002 Retirees

<i>Age and Service</i>		<i>Disability</i>	
Number	1,206	Number	80
Average Age	61.3	Average Age	53.3
Average Years of Service	17.9	Average Years of Service	13.5
Average Monthly Benefit	\$ 677	Average Monthly Benefit	\$473

Financial

II

Auditors' Report

Statements of Plan Net Assets

Statements of Changes in Plan Net Assets

Notes to Financial Statement

Schedule of Employer Contributions

Schedule of Funding Progress

Note to Required Supplementary Information

Schedule of Administrative Expense

Schedule of Investment Expense

*Schedule of Payments for Professional
Consultants*

Sen. Kevin A. Smith
Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
Rep. Tommy Roebuck
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Public Employees Retirement System
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the Arkansas Public Employees Retirement System, a Pension Trust Fund of the State of Arkansas (the "System") administered by the Arkansas Public Employees Retirement System Board of Trustees as of and for the year ended June 30, 2002, as listed in the forgoing table of contents. These financial statements are the responsibility of the management of the System. Our responsibility is to express an opinion on these financial statements based on our audits.

The financial statements for the year ended June 30, 2001 were audited by us and we expressed an unqualified opinion on them in our report dated December 12, 2001, but we have not performed any auditing procedures since that date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the data included in the Introductory, Investment, Actuarial and Statistical Sections of this report, and accordingly, express no opinion thereon.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 3, 2002

**Statements of Plan Net Assets
June 30, 2002 and 2001**

ASSETS	2002	2001
Cash and Cash Equivalents	\$ 266,614,809	\$ 289,026,645
Securities Lending Collateral Investments in Cash Equivalents (Notes 3 & 5)	24,289,636	97,478,445
<u>Receivables:</u>		
Contributions	1,510,265	1,442,631
Investment Principal Receivable	117,580,155	67,365,279
Accrued Investment Income Receivable	22,606,923	25,669,039
Total Receivables	141,697,343	94,476,949
<u>Investments, At Fair Value (Notes 3, 4 & 5):</u>		
Government Securities:		
U.S. Treasury Securities	192,488,948	168,267,232
Government Agency Securities	512,851,675	521,979,525
Corporate Securities:		
Asset Backed Securities	86,045,938	109,604,108
Corporate Bonds	558,555,522	670,039,962
Commercial Loans	5,402,917	12,557,089
Corporate CMO	71,736,654	64,576,888
Convertible Bonds	79,905,402	73,351,636
Convertible Preferred Stock	20,708,503	20,130,091
Common Stock	1,177,916,681	1,273,492,835
Equity Index Funds	190,614,297	204,163,459
High Yield Income Fund	65,264,187	61,899,774
International Securities:		
Government Fixed Obligations	25,401,354	14,260,018
Corporate Fixed Income	-	3,953,074
Equity Securities	160,182,501	176,673,077
Equity Pooled Fund Units	189,798,868	194,663,562
Emerging Markets	35,893,443	35,588,837
Real Estate	61,203,464	63,721,508
Timberland	166,730,686	171,439,134
Taxable Municipal Bonds	35,589,296	31,307,209
Total Investments	3,636,290,336	3,871,669,018
<u>Securities Lending Collateral Investments, At Fair Value (Notes 3 & 5):</u>		
Corporate Bonds	679,199,190	400,484,788
Bank Obligations	-	88,985,327
Commercial Paper	998,381	19,852,583
Total Securities Lending Collateral Investments	680,197,571	509,322,698
Prepays and Other Assets	8,917	25,719
Fixed Assets, Net	98,485	140,051
TOTAL ASSETS	4,749,197,097	4,862,139,525
LIABILITIES		
Accrued Expenses and Other Liabilities	4,035,397	4,462,098
Investment Principal Payable	299,853,139	236,759,867
Securities Lending Liability	704,487,207	606,801,143
TOTAL LIABILITIES	1,008,375,743	848,023,108
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Note 6)	\$ 3,740,821,354	\$ 4,014,116,417

(A schedule of funding progress is presented on page 32).

*Statements of Changes in Plan Net Assets
For the Years Ending June 30, 2002 and 2001*

ADDITIONS	<u>2002</u>	<u>2001</u>
<u>Contributions:</u>		
Employer	\$109,037,491	\$100,925,338
Plan Members	221,186	301,349
	109,258,677	101,226,687
Total Contributions	109,258,677	101,226,687
<u>Investment Income:</u>		
Interest	107,623,524	96,568,975
Dividends	20,390,875	19,677,017
Net Appreciation in Fair Value of Plan Investment	(353,640,844)	(298,142,047)
Security Lending Income	17,707,750	30,822,441
Real Estate Income	2,674,774	2,671,808
	(205,243,921)	(148,401,806)
Total Investment Income	(205,243,921)	(148,401,806)
Less: Investment Expense	27,497,262	42,072,266
Net Investment Income	(232,741,183)	(190,474,072)
<u>Other Sources:</u>		
Miscellaneous Additions	1,909,387	1,522,930
Transfer from Teachers Retirement System	6,106,234	5,961,278
Miscellaneous Transfers from State Agencies	51,328	49,570
	8,066,949	7,533,778
Total Other Additions	8,066,949	7,533,778
TOTAL ADDITIONS	(115,415,557)	(81,713,607)
 DEDUCTIONS		
Benefits	153,007,132	135,330,351
Refunds of Contributions	805,155	369,060
Administrative Expenses	4,067,319	3,853,726
Miscellaneous Deductions	-	8,367
	157,879,606	139,561,504
TOTAL DEDUCTIONS	157,879,606	139,561,504
NET INCREASE	(273,295,163)	(221,275,111)
Reserve Adjustments	100	(25)
NET ASSETS (Note 6)		
Beginning of Year	4,014,116,417	4,235,391,553
End of Year	<u>\$ 3,740,821,354</u>	<u>\$ 4,014,116,417</u>

See Notes to Financial Statements

**Notes to Financial Statements
For the Years Ending June 30, 2002 and 2001**

1. DESCRIPTION OF THE SYSTEM

A brief description of the Arkansas Public Employees Retirement System (“APERS” or the “System”) follows.

General Information - APERS is a cost-sharing, multiple employer, defined benefit pension plan established by authority of the Arkansas General Assembly with the passage of Act 177 of 1957 to provide retirement benefits for eligible employees and elected officials of state and local governmental entities in Arkansas. The laws governing operations of APERS are set forth in Arkansas Code of 1987 Annotated and 1993 Cumulative Supplement, Title 24, Chapter 4, with related laws in Chapter 2.

The general administration and responsibility for the proper operation of the system is vested in the nine member Board of Trustees of the Arkansas Public Employee Retirement System. Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of State, the Treasurer of State and the Director of the Department of Finance and Administration.

Reporting Entity - The executive director and administrative staff of APERS also serve as the executive director and administrative staff of two other state retirement systems, the State Police Retirement System and the Arkansas Judicial Retirement System. These systems do not constitute part of the APERS reporting entity under the provisions of Governmental Accounting and Financial Reporting Standards Statement No. 14, *The Financial Reporting Entity*, because these systems are legally separate, fiscally independent entities with separate Boards of Trustees. The nature of the relationship between these systems and APERS is merely a sharing of administrative resources, and as such, does not require inclusion of these systems in APERS financial statements.

Membership - APERS covers all state employees who are not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under the System, college and university employees and certain non-teaching school employees and other public entities specifically defined by law.

As of June 30, 2002 and 2001, the number of participating employers was as follows:

	2002	2001
State	241	240
County	87	87
Municipal	151	151
School	263	297
Other Non-State	18	18
Total	<u>760</u>	<u>793</u>

As of June 30, 2002 and 2001, membership was as follows:

Retirees and beneficiaries receiving benefits	17,748	16,643
Terminated plan members entitled to but not receiving benefits	8,361	7,489
Active Plan Members	42,230	42,556

Contributions - Contribution provisions applicable to the participating employers are established by the APERS Board of Trustees, and shall be based on the actuary's determination of the rate required to fund the Plan. The additional cost of public safety service for public safety employees is determined by the actuary as well. Administrative costs of APERS are financed through investment earnings.

APERS was established as a contributory plan. However, with the passage of Act 793 of 1977, existing members and previous members were offered the opportunity to choose to become non-contributory members. Anyone joining the System subsequent to January 1, 1978, and had not previously been a member, was automatically enrolled as a non-contributory member. Contributory members are required by statute to contribute 6% of gross wages to APERS. Employee contributions are refundable if APERS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with APERS for a period of five (5) or more years earn interest credits which are included in the refund. Pursuant to the provisions of Act 625 of 1983 and Act 1097 of 1993, certain agencies employing individuals in public safety positions are required to remit additional contributions in amounts determined by an independent actuary. Employer contribution rates during the fiscal year ending June 30, 2002 and 2001, are as follows:

	<u>2002</u>	<u>2001</u>
State Division	10.00%	10.00%
Wildlife Subdivision	22.00%	22.00%
State Capitol Police Subdivision	10.00%	10.00%
Administrative Offices of the Courts Subdivision	12.00%	12.00%
County Division	10.00%	8.00%
Municipal Division	10.00%	8.00%
School Division	4.00%	4.00%
Other Non-State Division	10.00%	8.00%

Benefits - Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full benefits (1) at age sixty-five (65) with five (5) years of actual service, (2) at any age with twenty-eight (28) years of actual service, or (3) under the contributory plan, at age sixty (60) with twenty (20) years of actual service, or under the non-contributory plan, at age fifty-five (55) with thirty-five (35) years of credited service. The normal retirement benefit amount, paid on a monthly basis, is determined by the member's final average salary and the number of years of service. A member may retire with a reduced benefit at age fifty-five (55) with at least five (5) years of actual service. APERS also provides for disability and survivor benefits.

Tax Status - During the fiscal years ended June 30, 2002 and 2001, APERS confirmed as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The financial statements of the System presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

Cash and Cash Equivalents - Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments are stated at amortized cost, which approximates fair value.

Investments - According to the Arkansas Code of 1987 Annotated (A.C.A.) and 2001 Cumulative Supplement, Title 24, Chapter 2, the System's investments are governed by the prudent investor rule, and include U.S. Government and government agency obligations, state and local government obligations, real estate, commercial mortgages, and corporate debt and equity obligations. Investments are reported at fair value.

Security transactions and any resulting gains or losses are accounted for on a trade date basis.

Investments other than real estate, commercial mortgages, private placements, and municipal revenue bonds are reported at fair values determined by the custodial agent. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Commercial mortgages, private placements, and municipal revenue bonds have been valued on an amortized cost basis which approximates market or fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. Short-term investments are reported at cost which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

Approximately 18.9% of the net assets available for benefits are invested in bonds of the U.S. government and its instrumentalities. The System has no investments of any commercial or industrial organization whose market value equals 5% or more of the System's net assets available for benefits.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

Fixed Assets - Fixed assets used in the plan operations consist of furniture and equipment, which are recorded at historical cost less accumulated depreciation. All such assets are depreciated over five years using the straight-line method of depreciation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reported period. Actual results could differ from those estimates.

3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS

The following is a reconciliation of the carrying amounts of cash and investments at June 30, 2002 and 2001:

As presented in the Statement of Plan Net Assets.		
	<u>2002</u>	<u>2001</u>
Cash and cash equivalents, including securities		
lending cash collateral	\$ 290,904,445	\$ 386,505,090
Investments, including securities lending		
collateral investments	<u>4,316,487,907</u>	<u>4,380,991,716</u>
Total	<u>\$ 4,607,392,352</u>	<u>\$ 4,767,496,806</u>
As presented in (a) and (b) below:		
	<u>2002</u>	<u>2001</u>
Deposits	\$ 2,001,920	\$ 1,714,313
Investments	<u>4,605,390,432</u>	<u>4,765,782,493</u>
Total	<u>\$ 4,607,392,352</u>	<u>\$ 4,767,496,806</u>

Listed below is a summary of the deposit and investment portfolio as of June 30, 2002 and 2001. Investing is governed by the prudent investor rule in accordance with A.C.A. 24-3-401 et. seq.). All investments of the System are considered to have been made in accordance with these governing statutes.

(a) Deposits

Deposits with financial institutions are classified depending on whether they are insured or collateralized. Bank balances are classified in the following categories of credit risk:

- Category 1: The deposits are insured or collateralized with securities held by the entity or by its agent in the System's name.
- Category 2: Deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name.
- Category 3: Deposits are uncollateralized or deposits are collateralized and the related securities are held by the pledging financial institution or by its trust department or agent, but not in the System's name.

A summary of deposits at June 30, 2002 and 2001 is as follows:

June 30, 2002	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Insured deposits	\$ 2,001,920	\$	\$	\$ 2,001,920
Uninsured deposits - Uncollateralized				<u>\$ 0</u>
Total deposits	<u>\$ 2,001,920</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,001,920</u>
 June 30, 2001				
Insured deposits	\$ 1,714,313			\$ 1,714,313
Uninsured deposits - Uncollateralized			<u>\$ 0</u>	<u>\$ 0</u>
Total deposits	<u>\$ 1,714,313</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,714,313</u>

Financial Section

Bank balances for insured deposits as of June 30, 2002 and 2001, are \$2,000,213 and \$1,716,351, respectively. Bank balances for uninsured, uncollateralized deposits were \$0 at both June 30, 2002 and 2001.

(b) Investments

The table which follows provides information about the collateral credit risk associated with the System's investments. Investments are categorized as follows:

- Category 1: The custodian is the System's agent and is not the counterparty or the counterparty financial institution's trust department. The custodian holds the securities in the System's name.
- Category 2: The custodian is the counterparty financial institution's trust department or the counterparty's agent and the custodian holds the securities in the System's name.
- Category 3: The custodian is the counterparty, regardless of whether it holds the securities in the system's name.

OR

The custodian is the counterparty financial institution's trust department or the counterparty's agent and the custodian does not hold the securities in the System's name.

Collateral Credit Risk June 30, 2002

	Category 1	Category 2	Category 3	Total
Investments:				
<u>Categorized:</u>				
U.S. Government securities	\$497,087,371			\$497,087,371
Corporate securities	1,805,167,192			1,805,167,192
International securities	188,092,692			188,092,692
Taxable municipal bonds	32,051,386			32,051,386
Total	2,522,398,641			2,522,398,641
<u>Uncategorized:</u>				
Mutual funds (STIF)				264,612,889
Collective trust funds				189,798,868
Commercial loans				5,402,917
Real estate				61,203,464
Timberland				166,730,686
Arkansas-related private placements				3,537,910
Total				691,286,734
<u>Investments under securities loans for cash collateral:</u>				
U.S. Government securities				208,253,252
Corporate securities				445,579,992
International securities				33,384,606
Total				687,217,850
Total investments	\$2,522,398,641			\$3,900,903,225
Invested cash collateral:				
<u>Categorized:</u>				
Corporate securities			\$679,199,190	\$679,199,190
Repurchase agreements			24,289,636	24,289,636
Commercial paper			998,381	998,381
Bank obligations			0	0
Total			704,487,207	704,487,207
<u>Uncategorized:</u>				
Mutual funds				0
Total invested cash			\$704,487,207	\$704,487,207

**Collateral Credit Risk
June 30, 2001**

	Category 1	Category 2	Category 3	Total
Investments:				
<u>Categorized:</u>				
U.S. Government securities	\$535,307,209			\$535,307,209
Corporate securities	2,057,993,839			2,057,993,839
International securities	212,963,607			212,963,607
Taxable municipal bonds	25,075,736			25,075,736
Total	2,831,340,391			2,831,340,391
<u>Uncategorized:</u>				
Mutual funds (STIF)				287,312,332
Collective trust funds				194,663,562
Commercial loans				12,557,089
Real estate				63,721,508
Timberland				171,439,134
Arkansas-related private placements				6,231,473
Total				735,925,098
<u>Investments under securities loans for cash collateral:</u>				
U.S. Government securities				154,939,548
Corporate securities				419,264,914
International securities				17,511,399
Total				591,715,861
Total investments	\$2,831,340,391			\$4,158,981,350
Invested cash collateral:				
<u>Categorized:</u>				
Corporate securities			\$400,484,788	\$400,484,788
Repurchase agreements			21,478,445	21,478,445
Commercial paper			19,852,583	19,852,583
Bank obligations			88,985,327	88,985,327
Total			530,801,143	530,801,143
<u>Uncategorized:</u>				
Mutual funds				76,000,000
Total invested cash			\$530,801,143	\$606,801,143

4. DERIVATIVES

Mortgage-Backed Securities – As of June 30, 2002 and 2001, the System held mortgage-backed securities of approximately \$553 million and \$349 million, respectively, at fair value. 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 System will receive the full amount of principal 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 repay 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 type and geographic location of the related properties.

Asset-Backed Securities - As of June 30, 2002 and 2001 the System held asset-backed securities with a fair value of approximately \$86 million and \$110 million, respectively. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Forward Currency Contracts - The System enters into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net appreciation in fair value of investments in the statement of changes in plan net assets. At June 30, 2002 and 2001, the System had outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of \$21,213,784 and \$31,275,963, respectively. Market values of these outstanding contracts were \$21,944,263 at June 30, 2002, and \$30,330,400 at June 30, 2001, resulting in net losses of \$730,479 and net gains of \$946,774 in fiscal years 2002 and 2001, respectively. The System also had outstanding forward currency contracts to sell foreign currency with contract amounts of \$8,852,130 and \$11,674,749 at June 30, 2002 and 2001, respectively. Market values of these contracts were \$8,935,222 at June 30, 2002 and \$11,393,533 at June 30, 2001, resulting in net gains of \$83,092 and net losses of \$281,216 in fiscal years 2002 and 2001, respectively.

Pooled Funds - APERS has approximately \$190 million invested in international pooled funds. APERS could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

5. SECURITIES LENDING ARRANGEMENTS

Arkansas Code and the Board of Trustees policies permit the System to participate in a securities lending program. The Program is administered by Bank of New York (the "Custodian"). The legal and contractual authorization for the securities lending program is contained in the Securities Lending Discretionary Agency Agreement executed between APERS and the Custodian. For the year ended June 30, 2002, there were no violations of the Agency Agreement. Certain securities of the trust fund are loaned to participating brokers. As of June 30, 2002, types of securities loaned included U.S. Government Securities, corporate securities and international securities. Brokers who borrow the securities provide collateral in the form of cash and cash equivalents, U.S. Treasury or Government Agency securities, or letters of credit (for the marginal percent collateralization only). Collateral must be provided in the amount of 102% for domestic loans and 105% for international loans. Securities on loan at fiscal year-end for cash collateral are presented as "not subject to classification" in the preceding investment schedule in Note 3; securities on loan for non-cash collateral are classified according to the category pertaining to the collateral. The Custodian provides for full indemnification to the System funds 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 failure to pay the trust funds for income of the securities while on loan. The System cannot pledge or sell collateral securities received unless the borrower defaults.

Cash collateral received is invested in APERS' name; accordingly, investments made with cash collateral appear as an asset on the Statement of Plan Net Assets. A corresponding liability is recorded as APERS must return the cash collateral 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 an average weighted maturity of 22 days on June 30, 2002, whereas the weighted average loan maturity was 4 days. As of June 30, 2002 and 2001, investments with cash collateral were approximately \$704 million and \$607 million, respectively.

6. LEGALLY REQUIRED RESERVES

By law, APERS must maintain reserve accounts showing each division's equity in the System's net assets available for benefits. Act 308 of 1999 consolidated County, Municipal, School and other Non-State employers into the Local Government Division. Significant reserve accounts and a brief description of those accounts are as follows:

The Members' Deposit Account ("MDA") represents members' contributions held in trust until member retirement, at which time contributions are transferred to the Retirement Reserve Account, described below.

The MDA Interest Reserve Account represents the accumulated interest paid on the Members Deposit Account held in trust until member retirement, at which time interest on member contributions is transferred to the Retirement Reserve Account described below.

The Employers' Accumulation Account accumulates employers' contributions to be used in providing the reserves required for transfer to the Retirement Reserve Account as members retire or become eligible for disability benefits.

The Retirement Reserve Account is the account to which member contributions, interest on those contributions, and employer contributions are transferred upon member retirement.

The Deferred Annuity Account is the amount set up to cover estimated retirement benefits to inactive vested members who are not currently receiving benefit payments.

As of June 30, 2002 and 2001, all reserve accounts were fully funded and sufficient assets were available to pay estimated retirement benefits applicable to retired individuals or beneficiaries currently receiving benefits and inactive vested individuals who are not currently receiving benefits.

Each of the divisions and respective reserve balances at June 30, 2002 and 2001, are as follows:

2002 Reserve Balances

<u>June 30, 2002</u>	<u>State Division</u>		<u>Local Government Division</u>			<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>	<u>Non-State Employers</u>	
Members' Deposit Account	\$11,488,012	\$2,001,232	\$1,352,459	\$1,780,778	\$18,195	\$16,640,676
MDA Interest Reserve	2,808,196	441,919	178,545	434,634	2,883	3,866,177
Employer Accumulation Account	1,703,609,557	268,372,258	133,200,931	139,974,458	2,393,642	2,247,550,846
Retirement Reserve	807,135,380	230,569,469	76,840,859	166,062,662	167,430	1,280,775,800
Deferred Annuity	107,602,232	23,708,838	9,189,344	20,311,530	97,116	160,909,060
DROP Reserve	27,195,270	2,363,585	645,782	586,063	-	30,790,700
Delinquent Receivable Reserve	65	8	-	-	-	73
Refund Overpayment Receivable Reserve	351	-	-	-	-	351
Outlawed Warrants	35,123	2,818	1,075	6,935	-	45,951
Partial Purchase of Service Reserve	193,896	18,812	11,206	17,365	-	241,279
Petty Cash Reserve	200	-	-	-	-	200
MDA Receivable Reserve	241	-	-	-	-	241
Total	<u>\$2,660,068,523</u>	<u>\$527,478,939</u>	<u>\$221,420,201</u>	<u>\$329,174,425</u>	<u>\$2,679,266</u>	<u>\$3,740,821,354</u>

2001 Reserve Balances

<u>June 30, 2001</u>	<u>State Division</u>	<u>Local Government Division</u>			<u>System Total</u>	
	<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>	<u>Non-State Employers</u>		
Members' Deposit Account	\$12,002,497	\$1,938,909	\$1,318,253	\$2,082,812	\$18,195	\$17,360,666
MDA Interest Reserve	3,011,696	491,352	217,846	572,739	2,337	4,295,970
Employer Accumulation Account	1,985,879,700	326,384,765	153,007,581	191,657,136	2,401,874	2,659,331,056
Retirement Reserve	745,791,222	204,893,259	68,112,085	152,545,159	154,552	1,171,496,277
Deferred Annuity	98,754,224	20,948,693	9,335,920	11,346,983	41,043	140,426,863
DROP Reserve	18,521,677	1,446,597	434,355	527,703	-	20,930,332
Delinquent Receivable Reserve	65	8	-	-	-	73
Refund Overpayment Receivable Reserve	351	-	-	-	-	351
Outlawed Warrants	35,123	2,818	1,075	6,935	-	45,951
Partial Purchase of Service Reserve	171,587	17,364	15,896	23,690	-	228,537
Petty Cash Reserve	100	-	-	-	-	100
MDA Receivable Reserve	241	-	-	-	-	241
Total	\$2,864,168,483	\$556,123,765	\$232,443,011	\$358,763,157	\$2,618,001	\$4,014,116,417

7. REQUIRED SUPPLEMENTARY SCHEDULES

The historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is included immediately following the notes to the financial statements.

* * * * *

*Required Supplementary Information
Schedule of Employer Contributions*

State Division

<u>Fiscal</u> <u>Year</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1995	\$60,223,565	100 %
1996	60,779,294	100
1997	64,854,084	100
1998	67,133,044	100
1999	70,093,652	100
2000	72,347,236	100
2001	74,715,424	100
2002	76,667,116	100

Local Government Division

<u>County</u>			<u>Municipal</u>		<u>School</u>		<u>Other Non-State</u>	
<u>Fiscal</u> <u>Year</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1995	\$8,910,854	100 %	\$3,441,333	100 %	\$2,242,827	100 %	\$87,449	100 %
1996	9,534,015	100	4,146,217	100	2,123,705	100	189,680	100
1997	10,209,208	100	4,686,282	100	2,018,839	100	282,249	100
1998	10,976,230	100	7,122,553	100	1,947,444	100	349,674	100
1999	11,621,256	100	9,421,792	100	1,887,524	100	298,219	100
2000	13,346,501	100	8,570,445	100	1,796,836	100	287,929	100
2001	16,100,483	100	8,102,942	100	1,717,373	100	289,116	100
2002	20,083,526	100	10,510,100	100	1,404,129	100	372,620	100

Note that years previous to 1995 are not shown because such information is not available in accordance with the parameters of GASB 25.

See Note to Required Supplementary Information

*Required Supplementary Information
Schedule of Funding Progress (Dollars in Millions)*

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL)	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll (Millions)	(6) UAAL (Excess) As Percentage of Covered Payroll (3)/(5)
1995	\$2,244	\$2,057	(187)	109 %	\$832	(22.5) %
1996	2,521	2,222	(299)	113	883	(33.8)
1997	2,876	2,607	(269)	110	939	(28.6)
1998	3,296	2,901	(395)	113	974	(40.6)
1999	3,712	3,479	(233)	107	1,009	(23.1)
2000	4,121	3,803	(318)	108	1,050	(30.3)
2001	4,342	4,111	(231)	106	1,070	(21.6)
2002	4,404	4,469	65	99	1,091	6.0
2002@	4,404	4,398	(6)	100	1,091	(0.5)

Note: Years previous to 1995 are not shown because such information is not available in accordance with the parameters of GASB 25.

See Note to Required Supplementary Information.

@ after changes in financial assumptions

Note To Required Supplementary Information

Actuarial Assumptions – The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2002
Actuarial Cost Method	Individual entry age normal cost
Amortization Method	30 year open
Remaining Amortization Period:	
State & Local Government Employers (2):	6 year open (Contingency Reserve Amortization) (1)
General Assembly Subdivision	30 year open
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	5.0% – 9.0%
Wage Inflation Rate	4.0%
Post-Retirement Cost-of-Living Adjustment	3.0% - Compounded annual increases
Mortality Table	1983 Group Annuity Mortality Table

(1) No unfunded liability exists for the State or Local Government Employers.

(2) The State Division and the Local Government Division were combined as permitted by Act 151 of 2001.

*Supporting Schedule
Schedule of Administrative Expense
For the Years Ended June 30, 2002 and 2001*

	<u>2002</u>	<u>2001</u>
PERSONNEL SERVICES:		
Salaries and wages	\$1,659,908	\$1,598,040
Employee benefits	271,383	271,315
Insurance	154,867	134,214
Other	24,951	315
	<hr/>	<hr/>
Total Personnel Services	2,111,109	2,003,884
COMMUNICATIONS:		
Postage	98,861	87,036
Telecommunications	41,900	41,715
Printing and advertising	25,360	21,559
Freight and express	1,162	1,741
Subscriptions and publications	6,415	8,557
	<hr/>	<hr/>
Total Communications	173,698	160,608
PURCHASES:		
Office Supplies	57,209	29,945
Equipment	45,459	13,480
	<hr/>	<hr/>
Total Purchases	102,668	43,425
SERVICES AND CHARGES:		
Professional fees and services	144,150	135,328
Rent expense	334,066	282,319
Travel and conference fees	42,633	32,564
Taxes, licenses and permits	44	211
Repairing and servicing	57,000	78,476
Training fees	1,630	6,459
Insurance and surety bonds	3,959	794
Bank and federal service charges	22,722	22,318
Data processing charges	1,022,042	944,069
Claims commission expense	-	16,695
Uncollectible Receivables	3,511	78,306
	<hr/>	<hr/>
Total Services and Charges	1,631,757	1,597,539
DEPRECIATION EXPENSE	<hr/>	<hr/>
	48,087	48,270
TOTAL ADMINISTRATIVE EXPENSES	<hr/>	<hr/>
	\$4,067,319	\$3,853,726

*Supporting Schedule
Schedule of Investment Expense
For the Years Ended June 30, 2002 and 2001*

	<u>2002</u>	<u>2001</u>
Investment consultant fee	\$ 133,800	\$ 120,000
Money manager fees	11,341,292	12,079,724
Custodian bank fees	533,483	658,736
International withholding taxes	271,248	266,115
Securities lending expenses	<u>15,217,439</u>	<u>28,947,691</u>
TOTAL INVESTMENT EXPENSE	<u>\$27,497,262</u>	<u>\$42,072,266</u>

*Supporting Schedule
Schedule of Payments for Professional Consultants
For the Years Ended June 30, 2002 and 2001*

	<u>2002</u>	<u>2001</u>
Gabriel, Roeder, Smith & Company	\$142,200	\$130,600
Other	<u>1,950</u>	<u>4,728</u>
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	<u><u>\$144,150</u></u>	<u><u>\$135,328</u></u>

For fees paid to investment managers, please see "Schedule of Investment Fees" shown on page 51 in the Investment Section of this report.

Investments

III

Report on Investments
Outline of Investment Policies
Actual vs. Target Asset Allocation
Manager Distribution
Portfolio Characteristics
Performance Comparisons
List of Ten Largest Assets Held
Schedule of Brokerage Commissions
Schedule of Investment Fees
Comparative Schedule of Investments

Paul V. Troup III
Executive Vice President



November 11, 2002

Dear Trustees:

We are pleased to provide a brief review of the progress of the APERS Retirement Plan for the fiscal year ending June 30, 2002.

Following the APERS review is Callan's observations regarding the markets, institutional behavior and our general views.

Introduction and Background

As with all retirement plans, there are three factors which influence performance:

- Manager Investment Strategies
- Investment Policy adopted by the Fund, and
- The Investment Environment

Year ending June 30, 2002 was extremely tough for equity investments. The S&P 500 stock index posted a return of -17.99% and the EAFE index -9.49%. US Bonds were the bright spot with the Lehman Aggregate delivering a return of 8.63%.

Fund Progress and Results

The APERS portfolio structure is based on the Fund's Investment Policy. The target asset mix is established using an analysis of the financial needs of the Fund and the Trustees' tolerance for investment risk. The target asset mix and the actual allocation as of 6/30/02 is listed below:

	<u>Target</u>	<u>Actual</u>
Domestic Equity	45%	40%
International Equity	10%	9%
Domestic Fixed	35%	43%
International Fixed	0%	0%
Alternative Inv./Real Estate	10%	7%

The asset allocation is different from the target due to the negative returns for equity.

For fiscal year ended 2002, the total fund rate of return, including gains, losses and income was -5.74%. This return is calculated using the time-weighted rate of return methodology endorsed by the Association for Investment Management and Research (AIMR). All performance results presented in the investment section of the CAFR are based on AIMR methodology.

Over the past 5 years, the Fund has had an annualized return of 4.46%. This level of performance meets the performance objectives of the Fund which is to deliver a real rate of return (return in excess of the inflation rate) of 3.5%. However, the return failed to exceed the actuarially assumed interest rate assumption of 8%.

At the beginning of the year, the assets of the fund totaled \$4.01 billion; at June 30, 2002, the Fund assets totaled \$3.73 billion. Negative performance of the equity markets is primarily responsible for this decline.

Summary

The operations of the investment program continue to function within the *long-term* guidelines established by the Board of Trustees.

Sincerely,

A handwritten signature in cursive script that reads "Paul V. Troup III". The signature is written in black ink and is positioned above the printed name.

Paul V. Troup III

Outline of Investment Policies

Investment Objectives

The investment objectives shall be: (1) the protection of the APERS’ Fund (the “Fund”) so that such assets are preserved for providing benefits to participants and their beneficiaries; and (2) to maximize total return - either in the form of income or capital appreciation or both - consistent with prudent risk taking on the amounts available to provide such benefits. For this purpose, short-term fluctuations in value shall be considered secondary to long-term investment results. The long-term return objective for the Fund shall be to achieve a real rate of return of 3.5%. This is the return over the rate of inflation (as measured by the Consumer Price Index). This objective is not to be a goal from year to year, but is intended as a long-term guideline to those involved in investing the Fund’s assets. An additional overall investment objective will be to achieve a total fund return of at least the actuarial rate of 8%. The investments of the Fund shall be so diversified as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. Investments will be further diversified by hiring an appropriate number of managers whose investment styles are varied enough to provide a balance to the overall risk of the Fund.

Asset Allocation (By Major Categories)

To avoid extreme exposure to investment risk, the following percentages represent the minimum and maximum portion at market of the portfolio that may be invested by types:

Asset Class	<u>Market Value Exposure</u>	
	Target	Range
Equities	55%	40%-60%
Fixed Income	35%	30%-40%
Alternatives	10%	5%-10%

The Board of Trustees shall review its asset allocation at least annually to determine if the asset allocation is consistent with the level of risk and volatility acceptable to the Fund.

Review of Investment Process

- A. On a timely basis, but not less than twice a year, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether:
 - 1. The investment managers performed in adherence to the investment philosophy and policy guidelines; and
 - 2. The investment managers performed satisfactorily when compared with the objectives set and other similarly managed funds.
- B. In addition to reviewing each investment manager’s results, the Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed-income and international equity segments objectives.

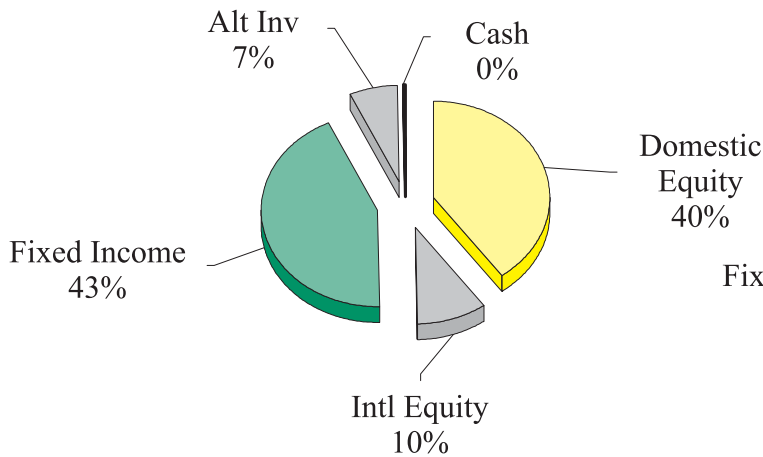
- C. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of:
 - 1. The manager structure;
 - 2. The allocation of assets among the managers; and
 - 3. The investment objectives for the Fund's assets.

- D. The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultants selected by the Board are expected to be familiar with the investment practices of other similar retirement plans and will be responsible for suggesting appropriate changes in the Fund's investment program over time.

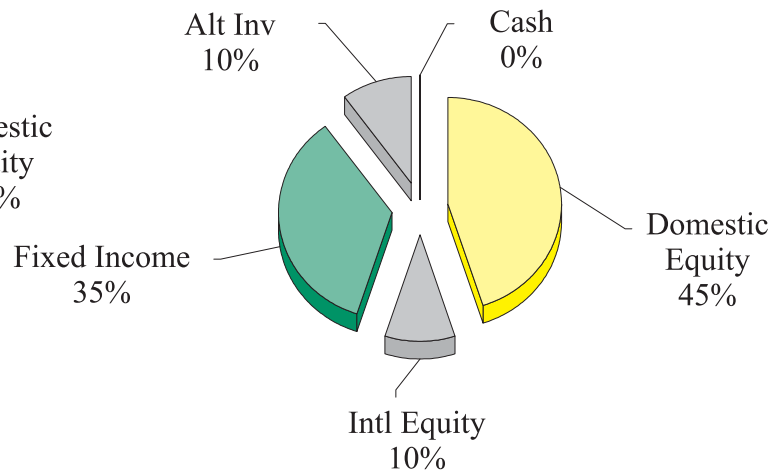
Actual vs. Target Asset Allocation

The first chart below shows the Fund asset allocation as of June 30, 2002. The second chart shows the Fund's target asset allocation as outlined in the investment policy statement. The last chart shows the average asset allocation for the Public Plan Sponsor Database.

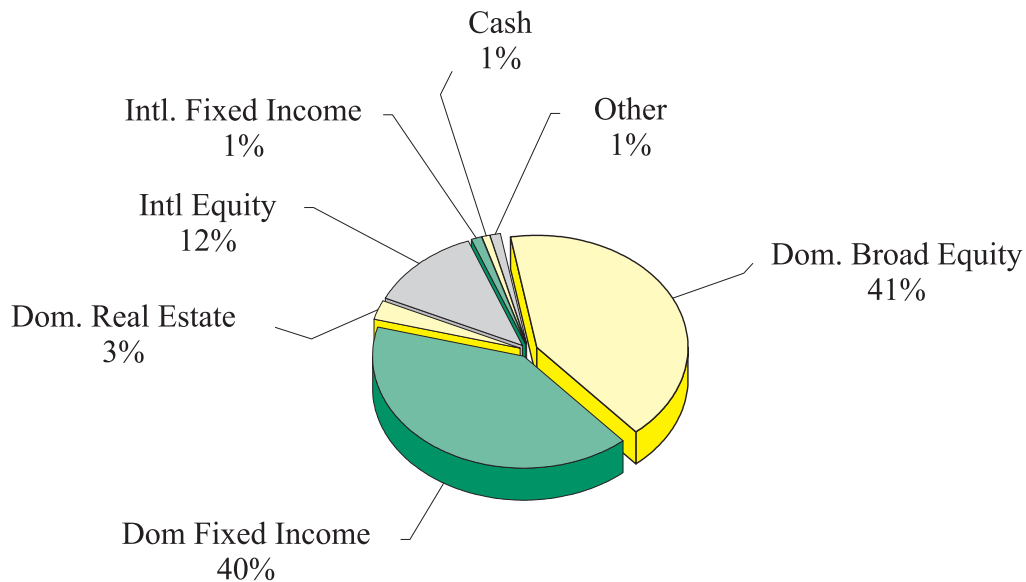
Actual Asset Allocation



Target Asset Allocation



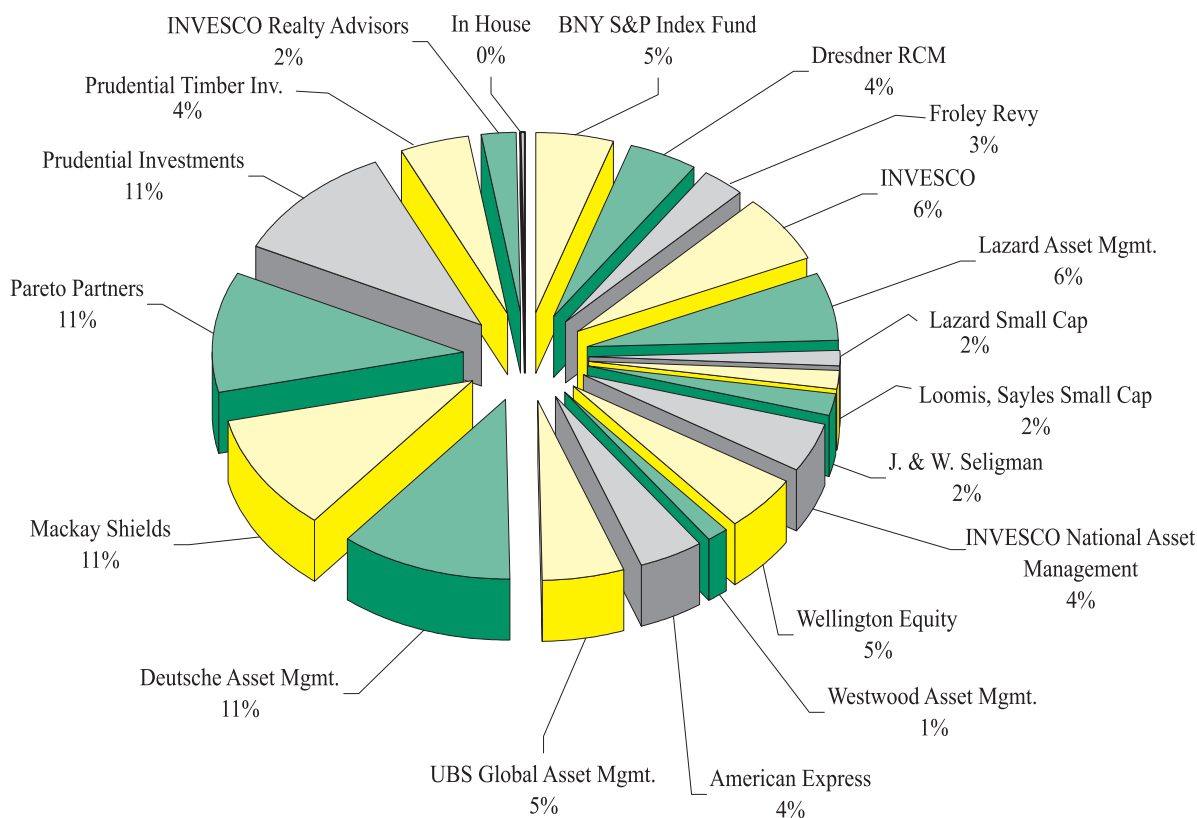
Public Plan Sponsor Database*



Asset Class	\$ 000s <u>Actual</u>	Percent <u>Actual</u>	Percent <u>Target</u>	Percent <u>Difference</u>	\$ 000s <u>Difference</u>
Domestic Equity	\$1,499,863	40.1 %	45.0 %	(5.0) %	(\$182,858)
Intl Equity	353,744	9.5	10.0	(0.5)	(20,194)
Fixed-Income	1,625,508	43.5	35.0	8.5	316,725
Alternative Investments	247,987	6.6	10.0	(3.4)	(125,952)
Cash	12,279	0.3	0.0	0.3	12,279
Total	\$3,739,381	100.0 %	100.0 %		

* Due to rounding, may not equal 100%

Manager Distribution for the Period Ended June 30, 2002



**Asset Distribution Across Investment Managers
Quarter Ended June 30, 2002**

<u>Asset Allocation</u>	<u>Market Value (\$ Thousands)</u>	<u>Percent of Total</u>	<u>Asset Allocation</u>	<u>Market Value (\$ Millions)</u>	<u>Percent of Total</u>
<u>Domestic Equity (\$1,499,863 - 40.11%)</u>			<u>Fixed Income (\$1,625,508 - 43.47%)</u>		
BNY S&P Index Fund	190,614	5.1%	Deutsche Asset Mgmt.	416,374	11.1%
Dresdner RCM	169,264	4.5%	MacKay Shields	398,566	10.7%
Froley Revy	100,498	2.7%	Pareto Partners	408,003	10.9%
INVESCO	222,733	6.0%	Prudential Investments	402,565	10.8%
Lazard Asset Mgmt.	226,925	6.1%	<u>Alternative Investments (\$247,987 - 6.63%)</u>		
Lazard Small Cap	59,347	1.6%	Prudential Timber Inv.	166,731	4.5%
Loomis, Sayles Small Cap	63,969	1.7%	INVESCO Realty Advisors	81,256	2.2%
J. & W. Seligman	65,596	1.8%	<u>Short-term Investment Fund</u>		
INVESCO National Asset Mgmt.	167,619	4.5%		12,279	0.3%
Wellington Equity	186,467	5.0%	<u>COMPOSITE FUND</u>		
Westwood Asset Mgmt.	46,831	1.3%		<u>\$ 3,739,381</u>	<u>100%</u>
<u>International Equity (\$353,744 - 9.46%)</u>					
American Express	163,945	4.4%			
UBS Global Asset Mgmt.	189,799	5.1%			

***Portfolio Characteristics
Fiscal Years Ended June 30***

	<u>2002</u>	<u>2001</u>
Selected Bond Characteristics:		
Yield to Maturity (Market)	5.95 %	6.85 %
Current Yield	6.17	6.93
Average Coupon Rate	5.96	6.51
Average Maturity	6.63 Yrs.	7.93 Yrs.
Quality Breakdown:		
AAA (Includes Govts. & Agencies)	56.00 %	56.00 %
AA	4.00	5.00
A	7.00	12.00
BAA	15.00	14.00
BA	6.00	6.00
B	3.00	5.00
*Cash	9.00	2.00
Selected Stock Characteristics:		
Average P/E Ratio	20.08 x	27.41 x
Estimated Earnings Growth Rate (Next 5 Years)	14.38 %	16.24 %
Current Yield	1.43	1.22

* Includes Short-Term Investment Fund

*Performance Comparisons
Fiscal Years Ended June 30*

	<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>		<u>1998</u>	
Fiscal Years Ended June 30										
Total Fund:										
Arkansas PERS	(5.74)	%	(3.82)	%	9.42	%	8.16	%	15.91	%
Callan Total Public Fund Median	(5.36)		(4.06)		10.00		10.65		17.96	
Inflation (Consumer Price Index)	0.74		3.19		3.87		1.94		1.60	

Equities:

Arkansas PERS	(16.39)	%	(12.87)	%	12.52	%	15.23	%	24.46	%
Callan Total Equity Database Median	(14.21)		(5.28)		11.63		14.44		25.71	
Standard & Poor's 500 Index	(17.99)		(14.83)		7.24		22.76		30.23	

International Equities:

Arkansas PERS	(5.93)	%	(23.18)	%	18.47	%	7.51	%	3.83	%
Callan Total Non-US Equities Database Median	(7.88)		(23.05)		23.98		7.64		6.37	
MSCI-EAFE Index	(9.49)		(23.60)		17.15		7.62		6.10	

Fixed Income:

Arkansas PERS	6.04	%	9.72	%	4.64	%	3.28	%	10.70	%
Callan Total Fixed Income Database Median	7.98		11.03		4.57		3.48		10.17	
Lehman Bros. Aggregate Index	8.63		11.22		4.57		3.15		10.54	

International Fixed Income:

Arkansas PERS *	N/A		N/A		2.39	%	6.71	%	4.91	%
Callan Total Non-US Fixed Income Database Median	N/A		N/A		0.63		5.15		2.30	
Salomon Bros. Non-US Bond Index	N/A		N/A		2.42		6.09		0.89	

* In December 2000, APERS made all fixed income mandates Core Plus, eliminating a separate International Fixed Income portfolio.

Source: Callan Associates Inc. (CAI database contains returns of over 4,000 tax-exempt retirement funds and investment managers).

Performance Comparisons
Current Year and Preceding 3-Year and 5-Year Rates of Return

<u>Fiscal Years Ended June 30</u>	2002	<u>Annualized</u>	
		<u>3-Year</u>	<u>5-Year</u>
Total Fund:			
Arkansas PERS	(5.74) %	(0.26) %	4.46 %
Callan Total Public Fund Median	(5.36)	0.48	5.54
Inflation (Consumer Price Index)	0.74	2.61	2.25
Equities:			
Arkansas PERS	(16.39) %	(6.41) %	3.10 %
Callan Total Equity Database Median	(14.21)	(1.49)	6.45
Standard & Poor's 500 Index	(17.99)	(9.18)	3.66
International Equities:			
Arkansas PERS	(5.93) %	(5.05) %	(0.91) %
Callan Total Non-US Equities Database Median	(7.88)	(3.49)	1.54
MSCI-EAFE Index	(9.49)	(6.78)	(1.55)
Fixed Income:			
Arkansas PERS	6.04 %	6.78 %	6.81 %
Callan Total Fixed Income Database Median	7.98	7.82	7.34
Lehman Bros. Aggregate Index	8.63	8.10	7.57
International Fixed Income:			
Arkansas PERS*	N/A	4.73 %	2.78 %
Callan Total Non-US Fixed Income Database	N/A	3.40	3.48
Salomon Bros. Non-US Bond Index	N/A	5.51	5.75

* In December 2000, APERS made all fixed income mandates Core Plus, eliminating a separate International Fixed Income portfolio.

Source: Callan Associates Inc. (CAI database contains returns of over 4,000 tax-exempt retirement funds and investment managers).

**List of Ten Largest Assets Held
As of June 30, 2002**

Domestic Fixed Income Holdings (By Market Value)

	<u>Par</u>	<u>Security</u>		<u>Market Value</u>
1)	\$ 20,738,000	US Treasury Note 4.875% 02/15/12	\$	20,815,768
2)	14,770,000	Federal Natl Mortgage Assn. 7.00% 07/15/05		16,154,688
3)	15,900,000	US Treasury Note 3.25% 05/31/04		16,024,219
4)	15,130,000	US Treasury Note 4.375% 05/15/07		15,338,038
5)	13,955,248	Federal Home Loan Mtg.Corp.#G11089 6.50% 11/01/13		14,500,340
6)	12,415,000	US Treasury Bond 6.875% 08/15/25		14,308,288
7)	14,352,000	US Treasury Note 3.50% 11/15/06		14,096,355
8)	14,800,000	US Treasury Bond 5.25% 02/15/29		13,921,250
9)	12,145,000	US Treasury Note 5.25% 08/15/03		12,566,280
10)	12,945,000	PPL Energy Supply 6.40% 11/01/11		12,061,633
		Total	\$	<u>149,786,859</u>

Domestic Equity Holdings (By Market Value)

	<u>Shares</u>	<u>Security</u>		<u>Market Value</u>
1)	543,140	Microsoft Corp.	\$	29,709,758
2)	755,110	Pfizer Inc.		26,428,850
3)	878,690	General Electric Co.		25,525,945
4)	610,184	Exxon Mobil Corp.		24,968,729
5)	596,306	CITIGROUP Inc.		23,106,858
6)	361,800	Wal-Mart Stores Inc.		19,902,618
7)	341,310	Johnson & Johnson		17,836,861
8)	366,290	Pepsico Inc.		17,655,178
9)	245,487	American International Group Inc.		16,749,578
10)	236,115	Bank Amer Corp.		16,613,051
		Total	\$	<u>218,497,426</u>

*List of Ten Largest Assets Held
As of June 30, 2002*

International Equity Holdings (By Market Value)

	<u>Shares</u>	<u>Security</u>		<u>Market Value</u>
1)	598,960	BP Amoco Capital//PLC	\$	5,030,899
2)	167,644	Royal Bank of Scotland Grp Ord		4,753,321
3)	259,976	ENI Spa		4,706,849
4)	106,883	Novartis AG		4,701,904
5)	385,833	HSBC Holdings PLC		4,437,668
6)	196,484	Glaxo Smith Kline PLC		4,247,169
7)	16,599	Nestle SA		3,871,389
8)	23,008	Total FINA Elf SA		3,736,186
9)	68,634	UBS (London) AG		3,452,920
10)	121,823	Philips Electronic		<u>3,401,754</u>
		Total	\$	<u>42,340,059</u>

*Schedule of Brokerage Commissions
As of June 30, 2002*

<u>Brokerage Firm</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Goldman Sachs	11,534,009	\$ 510,896	0.04
Deutsche Alex Brown	5,630,170	351,226	0.06
Merrill Lynch	7,690,684	342,774	0.04
Lehman Brothers	4,967,283	249,920	0.05
Morgan Stanley	5,885,790	182,935	0.03
Salomon Smith Barney	3,749,056	153,279	0.04
CS First Boston Global	3,742,330	152,092	0.04
Bear Stearns	3,243,794	148,003	0.05
SBC Warburg Dillon Read	2,363,339	106,549	0.05
JP Morgan	1,503,116	70,020	0.05
Banc America SEC	1,697,299	50,345	0.03
Sanford Bernstein	798,390	43,499	0.05
Cowen & Co.	803,100	37,692	0.05
Prudential Securities	927,590	37,534	0.04
Robertson Stephens	1,537,450	36,070	0.02
UBS Paine Webber	561,000	32,559	0.06
ITG	1,446,856	32,203	0.02
Jefferies	1,164,988	27,136	0.02
Capital Institutional Services	465,900	26,491	0.06
Weeden	539,750	25,750	0.05
Others (Includes 162 brokerage firms)	<u>15,190,213</u>	<u>480,158</u>	0.03
	<u>75,442,107</u>	<u>\$ 3,097,131</u>	0.04

*Schedule of Investment Fees
For The Year Ending June 30, 2002*

<u>Equities</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Froley, Revy - Convertible Securities	\$ 100,498,403	\$ 410,415	40
INVESCO - Value	222,733,046	699,706	30
Lazard Asset Mgmt. - Value	226,925,060	709,817	30
Lazard Small Cap	59,346,625	295,797	50
Dresdner RCM - Growth	169,264,451	656,550	30
Loomis, Sayles Small Cap	63,969,161	183,069	30
J & W Seligman - Growth	65,595,853	222,487	30
BNY S & P 500 Index Fund	190,614,297	78,203	3
Westwood Asset Mgmt. - Growth	46,830,697	377,612	77
INVESCO National Asset Mgmt. - Growth	167,618,951	464,866	25
Wellington Mgt. Co. - Value	186,466,708	590,847	30
UBS Global Asset Mgmt-Value	189,798,868	923,659	50
American Express Growth	<u>163,945,289</u>	<u>806,773</u>	50
Total Equity	\$ 1,853,607,409	\$ 6,419,801	
<u>Fixed Income</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Deutsche Asset Mgmt. Core Plus	\$ 416,374,383	\$ 559,941	20
MacKay Shields Core Plus	398,565,594	788,120	20
Pareto Partners Core Plus	408,003,371	792,565	20
Prudential Asset Mgmt. Core Plus	<u>402,565,496</u>	<u>790,796</u>	20
Total Fixed Income	\$ 1,625,508,844	\$ 2,931,422	
<u>Alternatives</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
PruTimber Timberland	\$ 166,730,686	\$ 1,360,115	90
INVESCO Realty - Real Estate	<u>81,255,555</u>	<u>586,177</u>	65
Total Alternatives	\$ 247,986,241	\$ 1,946,292	
<u>Other Investment Services</u>		<u>Fee</u>	
Bank of New York (Custodian)		\$ 455,406	
Bank of New York (Securities Lending)		1,066,037	
Callan Associates (Consultant)		<u>133,800</u>	
Total Other Services		\$ <u>1,655,243</u>	
Total Investment Service Fees		\$ <u><u>12,952,758</u></u>	

*Comparative Schedule of Investments
For the Fiscal Years Ended June 30, 2002 and 2001*

	<u>2002</u>	<u>2001</u>
U.S. Government Securities:		
U.S. Treasury Securities	\$ 192,488,948	\$ 168,267,232
U.S. Government Agency Securities	512,851,675	521,979,525
Corporate Securities:		
Asset Backed Securities	86,045,938	109,604,108
Corporate Bonds	558,555,522	670,039,962
Corporate CMO	71,736,654	64,576,888
Convertible Bonds	79,905,402	73,351,636
Convertible Preferred Stock	20,708,503	20,130,091
Common Stock	1,177,916,681	1,273,492,835
Equity Index Funds	190,614,297	204,163,459
High Yield Income Fund	65,264,187	61,899,774
International Securities:		
Government Fixed Obligations	25,401,354	14,260,018
Corporate Fixed Income	0	3,953,074
Equity Securities	160,182,501	176,673,077
Equity Pooled Fund Units	189,798,868	194,663,562
Emerging Markets	35,893,443	35,588,837
Real Estate	61,203,464	63,721,508
Timberland	166,730,686	171,439,134
Taxable Municipal Bonds	35,589,296	31,307,209
Commercial Loans/Mtg. Investments	<u>5,402,917</u>	<u>12,557,089</u>
TOTAL INVESTMENTS	<u>\$ 3,636,290,336</u>	<u>\$ 3,871,669,018</u>

Actuarial

IV

Actuary's Certification Letter
Summary of Assumptions Used in Actuarial Valuations
Summary of Actuarial Methods and Assumptions
Schedule of Active Member Valuation Data
Short Condition Test
Analysis of Financial Experience
Analysis of Financial Experience Gains and Losses by Risk Area
Summary of Plan Provisions



GABRIEL, ROEDER, SMITH & COMPANY

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November 21, 2002

The Board of Trustees
Public Employees Retirement System of Arkansas
Little Rock, Arkansas

Dear Board Members:

The basic financial objective of the Arkansas Public Employees Retirement System as provided in the Arkansas Code is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens and when combined with present assets and future investment return will be sufficient to meet the financial obligations of PERS to present and future benefit recipients.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2002.

APERS administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The plan's external auditor also audits the actuarial data annually.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report.

Actuarial Section

Summary of Actuarial Assumptions

November 21, 2002

Percent Retiring Next Year

Probabilities of Retirement for Members Eligible to Retire

Percent Separating Within Next Year

Individual Employee Pay Increases

Analysis of Financial Experience

Financial Section

Schedule of Funding Progress

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2002 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1992-97 period.

On the basis of the June 30, 2002 valuations and the benefits and contribution rates then in effect, it is our opinion that the retirement system is in sound condition in accordance with actuarial principles of level cost financing. The reserve strength of PERS continues to be exceptionally high.

Respectfully submitted,



Norman L. Jones, F.S.A., M.A.A.A.

NLJ:kmg

*Summary of Assumptions Used in Actuarial Valuations
Assumptions Adopted by Board of Trustees after Consulting with Actuary
June 30, 2002 Valuation*

Economic Assumptions

The investment return rate used in making the valuation was 8.00% per year, compounded annually (net after administrative and investment expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the inflation rate. Considering the assumed inflation rate of 4.50%, the 8.00% investment return rate translates to an assumed real rate of 3.5%. This rate of assumption was first used for the June 30, 1998 valuation.

Pay increase assumptions for individual active members are shown on page 60. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation. This assumption was first used for the June 30, 1998 valuation.

Total active member payroll is assumed to increase 4.00% per year, which is the portion of the individual pay increase assumptions attributable to inflation. This assumption was first used for the June 30, 1998 valuation.

The number of active members is assumed to continue at its present number for all divisions with the exception of the School division, which is closed to new entrants.

Non-Economic Assumptions

The mortality table used to measure retired life mortality was the 1983 Group Annuity Mortality Table. Related values are shown on page 59. This table was first used for the June 30, 1998 valuation.

The probabilities of withdrawal from service, *death-in-service*, and *disability* are shown for sample ages on page 60. *The probabilities of retirement for members eligible to retire* are shown on page 61.

The entry age normal cost method of valuation was used in determining liabilities and normal cost.

Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (the total of principal and interest) which are level percent of payroll contributions.

Recognizing the special circumstances of the General Assembly Sub-Division, modifications of the above assumptions were made where appropriate.

Present assets (cash & investments) were valued on a market related basis in which differences between actual and assumed returns are phased in over a four year period.

The data about persons now covered and about present assets were furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

*Summary of Actuarial Methods and Assumptions
June 30, 2002 Valuation*

Valuation Date	June 30, 2002
Actuarial Cost Method	Individual entry age normal cost
Amortization Method	30 year open
Remaining Amortization Period:	
State & Local Government Employers (2):	6 year open (Contingency Reserve Amortization) (1)
General Assembly Subdivision	30 year open
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	5.0% – 9.0%
Wage Inflation Rate	4.0%
Post-Retirement Cost-of-Living Adjustment	3.0% - Compounded annual increases
Mortality Table	1983 Group Annuity Mortality Table

(1) No unfunded liability exists for the State or Local Government Employers.

(2) The State Division and the Local Government Division were combined as permitted by Act 151 of 2001.

*Summary of Actuarial Methods and Assumptions
June 30, 2002 Valuation*

*Single Life Retirement Values
Based on 1983 Group Annuity Mortality
8.00% Interest*

Sample Attained Ages	Present Value of \$1.00 Monthly for Life		Present Value of \$1.00 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$148.98	\$153.82	\$194.76	\$203.87	38.96	45.02
45	144.18	150.67	186.12	197.68	34.24	40.18
50	138.10	146.42	175.64	189.74	29.68	35.41
55	130.57	140.74	163.23	179.68	25.32	30.73
60	121.04	133.23	148.35	167.13	21.14	26.17
65	109.26	123.61	131.03	151.93	17.19	21.78
70	96.18	111.53	112.72	134.00	13.68	17.63
75	82.40	97.57	94.31	114.43	10.65	13.87
80	68.65	83.15	76.79	95.13	8.14	10.70
85	50.59	68.97	61.99	76.96	6.23	8.08

Sample Attained Ages	Benefit Increasing 3.0% Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
60	\$100.00	100%	100%
65	116.00	94	97
70	134.00	85	92
75	156.00	72	84
80	181.00	54	70

*Summary of Actuarial Methods and Assumptions
June 30, 2002 Valuation*

Separations from Active Employment Before Age and Service Retirement

Sample Ages	Years of Service	Percent of Active Members Separating within the Next Year					
		Withdrawal		Death #		Disability	
		Men	Women	Men	Women	Men	Women
	0	30.0%	30.0%				
	1	25.0	25.0				
	2	20.0	20.0				
	3	15.0	15.0				
	4	12.0	12.0				
20	5+	9.0	9.0	0.03%	0.01%	0.06%	0.06%
25		8.3	8.3	0.03	0.02	0.06	0.06
30		5.3	5.3	0.05	0.03	0.06	0.06
35		3.0	3.0	0.06	0.04	0.06	0.06
40		2.6	2.6	0.09	0.05	0.16	0.16
45		2.4	2.4	0.16	0.08	0.21	0.21
50		1.1	1.1	0.29	0.12	0.39	0.39
55		0.8	0.8	0.46	0.19	0.71	0.71
60		0.8	0.8	0.69	0.32	1.13	1.13

80% of active members who die in service are assumed to be married

Pay Increase Assumptions for an Individual Member

Age	Merit & Seniority	Base (Economy)	Increase Next Year
20	6.27%	4.0	10.27%
25	4.59	4.0	8.59
30	3.42	4.0	7.42
35	2.56	4.0	6.56
40	1.93	4.0	5.93
45	1.42	4.0	5.42
50	1.02	4.0	5.02
55	0.71	4.0	4.71
60	0.50	4.0	4.50

*Summary of Actuarial Methods and Assumptions
June 30, 2002 Valuation*

Probabilities of Retirement for Members Eligible to Retire

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Unreduced #	Reduced	DROP (Service in Years)		
			28	29	30+
50	30%		20%	30%	40%
51	30%		20%	30%	40%
52	30%		20%	30%	40%
53	30%		20%	30%	40%
54	30%		20%	30%	40%
55	30%	2%	20%	30%	40%
56	30%	2%	20%	30%	40%
57	30%	2%	20%	30%	40%
58	30%	2%	20%	30%	40%
59	30%	2%	20%	30%	40%
60	30%	4%	20%	30%	40%
61	30%	6%	20%	30%	40%
62	30%	20%	20%	30%	40%
63	30%	15%	20%	30%	40%
64	30%	15%	20%	30%	40%
65	50%				
66	30%				
67-79	20%				

A member was assumed eligible for unreduced retirement after attaining age 50 with 28 years of service, or age 65 with 5 years of service. A member was assumed eligible for reduced retirement after attaining age 55 with 10 or more years of service.

For members under 65, the percentage of eligible participants assumed to retire during the next year is 1/3 of the above percentages for members with 30 or more years of service, 1/2 of the above percentages for members with 29 years of service and 2/3 of the above percentage for members with 28 years of service.

**Schedule of Active Member Valuation Data
10 Year Comparative Statements**

STATE AGENCIES

Valuation Date <u>June 30</u>	Active Members in Valuation		Average Pay		% Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	% Change	
1992	22,953	\$ 468,310,059	\$20,403	+5.3%	+3.1
1993 #@	23,201	495,874,973	21,373	+4.8	+3.0
1994	24,488	530,532,520	21,665	+1.4	+2.5
1995 #&	25,392	566,317,776	22,303	+2.9	+3.0
1996	25,496	598,416,616	23,471	+5.2	+2.8
1997 #	25,699	636,196,222	24,695	+5.2	+3.0
1998 @	25,776	657,941,805	25,525	+3.4	+2.3
1999	25,726	674,674,818	26,225	+2.7	+1.7
1999 #	25,726	674,941,818	26,225	+2.7	+1.7
2000	25,869	696,187,512	26,912	+2.6	+3.7
9 Year Average				<u>+3.3%</u>	<u>+2.5</u>

LOCAL GOVERNMENT EMPLOYERS

(Combined County, Municipal, School & Other Non-State Employers)

Valuation Date <u>June 30</u>	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	Change	
1998 @	17,150	\$ N/A	\$18,385	+3.2%	+2.3
1999	17,216	332,656,169	19,323	+0.0	+1.7
1999 #	17,216	332,656,169	19,323	+5.1	+1.7
2000	17,132	352,354,160	20,567	+6.4	+3.7
4 Year Average				<u>+3.7%</u>	<u>+1.9</u>

STATE AND LOCAL GOVERNMENT EMPLOYERS

Valuation Date <u>June 30</u>	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	Change	
2001	42,469	\$ 1,069,021,325	\$25,172	+3.2	+3.2
2002	42,143	1,110,424,974	26,349	+4.7%	+1.1

N/A Data not available for this fiscal year.

After legislated changes in benefit provisions.

@ After changes in financial assumptions.

& After changes in asset valuation method.

*Schedule of Active Member Valuation Data
10 Year Comparative Statements*

GENERAL ASSEMBLY SUBDIVISION

Valuation Date <u>June 30</u>	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	<u>Number</u>	<u>Annual Payroll</u>	Dollars	Change	
			<u>Dollars</u>	<u>Change</u>	
1993 #@	127	\$ 955,040	\$ 7,520	+0.0	+3.0
1994	128	N/A	12,512	+6.4	+2.5
1995 #	125	N/A	12,512	+0.0	+3.0
1996	124	1,553,000	12,524	+0.0	+2.8
1997 #	125	1,565,500	12,524	+0.0	+3.0
1998 @	121	1,515,500	12,525	+0.0	+2.3
1999	122	1,526,500	12,512	-0.1	+1.7
2000	120	1,500,000	12,500	-0.1	+3.7
2001	87	1,087,500	12,500	+0.0	+3.2
2002	87	1,087,500	12,500	+0.0	+1.1
10 Year Average				<u>+5.2</u>	<u>+2.6</u>

N/A Data not available for this fiscal year.

After legislated changes in benefit provisions.

@ After changes in financial assumptions.

& After changes in asset valuation method.

* Funding policy was to liquidate the Contingency Reserve over a period of years and then return to a normal cost contribution.

**Short Condition Test
5-Year Comparative Statements**

The PERS funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will *pay all promised benefits when due — the ultimate test of financial soundness*. Testing for level contribution rates is *the* long term condition test.

A *short condition test* is one means of checking a system’s progress under its funding program. In a short condition test, the plan’s present assets (cash and investments) are compared with: 1) Active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; 3) the liabilities for service already rendered by members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liability for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in unusual circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is uncommon. The following schedules illustrate the history of liability 3 of the System and is indicative of the APERS objective of following the discipline of level percent of payroll financing.

STATE AGENCIES

Valn Date: June 30	Entry Age Accrued Liability			Valuation Assets	Portion of Present Values Covered by Present Assets			
	(1) Active Member Contr.	(2) Retirees and Benef.	(3) Active Members (Employer Financed Portion) (\$ in Millions)		(1)	(2)	(3)	Total
	1998@	\$17.2	\$640.3		\$1,395.9	\$2,328.5	100 %	100 %
1999	16.9	721.9	1,516.8	2,637.1	100	100	125	117
1999@#	16.9	784.0	1,634.2	2,637.1	100	100	112	108
2000	15.8	747.5	1,865.7	2,943.3	100	100	117	112

LOCAL GOVERNMENT EMPLOYERS

(Combined County, Municipal, School & Other Non-State Employers)

1998@	\$8.8	\$337.9	\$ 501.1	\$968.1	100 %	100 %	124 %	114 %
1999	8.8	396.9	559.7	1,074.7	100	100	120	111
1999#	8.8	446.9	587.9	1,074.7	100	100	105	103
2000	7.6	440.0	706.0	1,178.1	100	100	103	102

STATE AND LOCAL GOVERNMENT EMPLOYERS

2001#	\$23.4	\$1,305.0	\$2,759.2	\$4,335.5	100 %	100 %	109 %	106 %
2002	20.5	\$1,502.7	2,922.0	4,397.2	100 %	100 %	98 %	99 %
2002@	20.5	\$1,502.7	2,850.8	4,397.2	100 %	100 %	101 %	101 %

After legislated changes in benefit provisions
@ After changes in financial assumptions.

***Analysis of Financial Experience
Year Ended June 30, 2002***

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

	\$ in Millions		
	State and Local Government	General Assembly	Total
(1) UAAL* at beginning of year	\$ (248.0)	\$ 18.1	\$ (230.0)
(2) Normal cost from last valuation	117.0	0.2	117.2
(3) Actual employer contributions	107.0	1.8	108.8
(4) Interest accrual: $[(1) + 1/2[(2) - (3)]] \times .080$	(19.0)	1.0	(18.0)
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	(257.0)	17.5	(239.5)
(6) Increase from benefit changes	0.0	0.0	0.0
(7) Changes from revised actuarial assumptions and methods	(71.1)	0.0	(71.1)
(8) New entrant liabilities	39.0	0.0	39.0
(9) Expected UAAL after changes: (5) + (6) + (7) + (8)	(289.1)	17.5	(271.6)
(10) Actual UAAL at end of year	(23.1)	17.2	(5.9)
(11) Gain (loss): (9) - (10)	\$ (266.0)	\$ 0.3	\$ (265.7)

* *Unfunded actuarial accrued liability*

*Analysis of Financial Experience
Gains and Losses By Risk Area
Year Ended June 30, 2002*

Type of Risk Area	State and Local Government	General Assembly
ECONOMIC RISK AREAS		
<u>Pay Increases</u>		
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 5.4	\$ 0.0
<u>Investment Return</u>		
If there is greater investment return than assumed, there is a gain. If less return, a loss.	(247.3)	0.2
NON-ECONOMIC RISK AREAS		
<u>Non-Casualty Retirements</u>		
If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	3.8	(0.1)
<u>Disability Retirements</u>		
If there are fewer disabilities than assumed, there is a gain. If more, a loss.	(2.5)	0.0
<u>Death-in-Service Benefits</u>		
If there are fewer claims than assumed, there is a gain. If more, a loss.	0.5	0.0
<u>Withdrawal</u>		
If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(4.5)	0.3
Total Actuarial Gains (Losses)	\$ (244.6)	\$ 0.4
<u>Other</u>		
Includes data adjustments at retirement, timing of financial transactions, retired life mortality, and miscellaneous unidentified sources.	(21.4)	(0.1)
Total Actuarial Gains (Losses)	\$ (266.0)	\$ 0.3

*Summary of Plan Provisions
June 30, 2002 Valuation*

Contributory

Voluntary Retirement - A member may retire with full benefit at age 65 with 5 or more years of actual service, age 60 with 20 or more years of actual service, or after 28 years of actual service regardless of age.

Early Retirement - A member who has reached age 55 with 5 years of service may retire with a reduced benefit. The reduction is equal to 1/2 of 1% for each month retirement precedes normal retirement age.

Vested Retirement Benefits - A member leaving APERS covered employment before full retirement age is considered vested with five years of actual service. A death benefit is payable to the surviving spouse of a member who dies before benefit commencement.

Deferred Retirement - A vested member who leaves covered employment before full retirement age is on deferred retirement. Deferred full retirement benefit, based on service and pay at termination, begins at age 65 with 5 years of service; or age 60 with 20 years service. In place of deferred full benefit, at age 55 or older an employee can elect an immediate reduced benefit. Reduction amount is full amount reduced by 1/2 of 1% for each month of difference in benefit beginning ages. To be eligible, a member must have 5 years of service when leaving APERS-covered employment before full retirement age.

Disability Retirement - For an active member, disabled after 5 years of service, including credit for 18 of the 24 months preceding disability, the amount payable is computed as an age and service benefit, based on service and pay at disability.

Final Average Compensation (FAC) - A member's final average compensation is the average of the highest 36 calendar months of covered compensation.

Full Age and Service Retirement Benefit - The annuity benefit equals 2.07% of FAC times years of credited service (2.11% for service prior to July 1, 2001).

Benefit Increases After Retirement - Annually, there will be a cost of living adjustment of 3% of the current benefit.

Survivor Benefits - If death occurs before total monthly benefit payments equal member's accumulated contributions, the difference is refunded. Should a member elect a straight life benefit and decease within 12 months of the date of retirement, a benefit may be payable to the surviving spouse under certain circumstances. A retiring member can also elect an optional form of benefit, which provides beneficiary protection and is paid for by reducing the retired member's benefit amount. If death occurs while in APERS-covered employment, member's accumulated contributions are refundable. However, if a member has 5 years or more of service, monthly benefits are payable instead. The surviving spouse receives a benefit, payable immediately, computed as if member had retired and elected the Joint and 75% Survivor Option. Each dependent child receives benefit of 10% of compensation, subject to a 25% maximum for all children. Dependent parent benefits are payable if neither spouse nor children benefits are payable.

Members' Contribution Rates - Contributory plan members are required to contribute 6% of covered compensation. Member contributions are refundable if APERS covered employment terminates before a monthly benefit is payable (if contributions were for 5 or more years, interest credits are included in the refund).

Deferred Retirement Option Plan (DROP) - Members with 28 or more years of actual service in PERS or in combination with a reciprocal system are eligible to participate. Members, for a maximum of 84 months, may continue employment and have a percentage of their retirement benefits accumulate in a tax-deferred account. The current DROP percentages range from 63% for 28 years of service to 75% for 30+ years of service. DROP accounts earn interest of 6 percent on the balance and are paid to members upon retirement in a lump sum, as an additional monthly benefit, or rolled over into a qualified retirement plan.

*Summary of Plan Provisions
June 30, 2002 Valuation*

Non-Contributory

Voluntary Retirement - A member may retire at age 65 with 5 or more years of actual service, or after 28 years of actual service regardless of age. For sheriff and public safety members, the age 65 requirement is reduced 1 month for each 2 months of actual service, but not below age 55 (age 52 for sheriff members with a minimum of 10 years of actual service).

Early Retirement - A member who has reached age 55 with 5 years of service may retire with a reduced benefit. The reduction is equal to at least 1/2 of 1% for each month retirement precedes normal retirement age.

Vested Retirement Benefits - A member leaving APERS covered employment before full retirement age is considered vested with five years of actual service. A death benefit is payable to the surviving spouse of a member who dies before benefit commencement.

Deferred Retirement - A vested member who leaves covered employment before full retirement age is on deferred retirement. Deferred full retirement benefit, based on service and pay at termination, begins at age 65 with 5 years of service. In place of deferred full benefit, a qualifying employee can elect an immediate reduced benefit. Reduced amount is full amount reduced by at least 1/2 of 1% for each month of difference in benefit beginning ages.

Disability Retirement - For an active member, disabled after 5 years of service, including credit for 18 of the 24 months preceding disability, the amount payable is computed as an age and service benefit, based on service and pay at disability.

Final Average Compensation (FAC) - A member's final average compensation is the average of the highest 36 calendar months of covered compensation.

Full Age and Service Retirement Benefit - The annuity benefit is calculated as 1.72% of FAC times years and months of credited service (1.75% for service prior to July 1, 2001). If retirement is before age 62, an additional .33% of FAC times years of service will be paid until the retiree becomes age 62. The portion of the benefit based on service before 1978 cannot be less than amount provided by contributory provisions in effect at time of retirement. The minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

Benefit Increases After Retirement - Annually, there will be a cost of living adjustment equal to 3% of the current benefit.

Survivor Benefits - Member contributions before 1978 are protected in the same manner as under the contributory plan. Should a member elect a straight life benefit and decease within 12 months of the date of retirement, a benefit may be payable to the surviving spouse under certain circumstances. Retiring members can also elect an optional form of benefit, which provides beneficiary protection and is paid for by reducing the retired member's benefit amount. If death occurs while in APERS covered employment, member's accumulated contributions before 1978 are refundable. However, if a member has 5 years or more of service, monthly benefits are payable instead. The surviving spouse receives a benefit, payable immediately, computed as if member had retired and elected the Joint and 75% Survivor Option. Each dependent child receives benefit of 10% of compensation, subject to maximum of 25% for all children. Dependent parent benefits are payable if neither spouse nor children benefits are payable.

Members' Contribution Rates - There are no employee contributions for service after January 1, 1978. If there is service before January 1, 1978, contributions for that period are refundable later in the same manner as under the Contributory Plan.

Deferred Retirement Option Plan (DROP) - Members with 28 or more years of actual service in PERS or in combination with a reciprocal system are eligible to participate. Members, for a maximum of 84 months, may continue employment and have a percentage of their retirement benefits accumulate in a tax-deferred account. The current DROP percentages range from 63% for 28 years of service to 75% for 30+ years of service. DROP accounts earn interest of 6 percent on the balance and are paid to members upon retirement in a lump sum, as an additional monthly benefit, or rolled over into a qualified retirement plan.

Statistical



V

Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Benefit Expenses by Type

Schedule of Retired Members by Type of Benefit

Schedule of Average Benefit Payments

Statistical Charts

Schedule of Participating Employers

*Schedule of Revenues by Source
For the Fiscal Years 1997-2002*

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Transfers and Other	Total
1997	\$535,390	\$82,050,662	\$402,179,790	\$7,851,330	\$492,617,172
1998	490,011	87,528,945	480,224,939	6,963,014	575,206,909
1999	452,946	93,322,444	281,941,948	7,515,334	383,232,672
2000	368,751	96,348,947	350,016,319	7,976,988	454,711,005
2001	301,349	100,925,338	(190,474,072)	7,533,778	(81,713,607)
2002	221,186	109,037,491	(232,741,183)	8,066,949	(115,415,557)

NOTE: Investment income includes investment gain calculated in accordance with GASB 25.

*Schedule of Expenses By Type
For the Fiscal Years 1997-2002*

Year Ending <u>June 30</u>	<u>Benefit Payments</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Miscellaneous</u>	<u>Total</u>
1997	\$82,551,178	\$3,603,677	\$1,011,382	-	\$87,166,237
1998	91,210,892	3,249,532	132,703	-	94,593,127
1999	99,224,501	3,582,665	55,378	-	102,862,544
2000	121,714,351	3,549,098	42,725	-	125,306,174
2001	135,330,351	3,853,726	369,060	8,367	139,561,504
2002	153,007,132	4,067,319	805,155	-	157,879,606

*Schedule of Benefit Expenses by Type
For the Fiscal Years 1997-2002*

<u>Year Ending June 30</u>	<u>Age & Service</u>		<u>Death in Service</u>	<u>Disability</u>		<u>Refunds</u>
	<u>Retirees</u>	<u>Survivors</u>		<u>Retirees</u>	<u>Survivors</u>	
1997	\$ 76,092,288	\$ 1,869,996	\$ 1,930,368	\$ 4,515,588	\$ 434,916	\$ 1,011,382
1998	79,123,128	1,897,992	2,274,900	5,908,068	636,660	132,703
1999	100,343,772	2,595,384	2,629,740	5,793,600	612,372	55,378
2000	107,580,516	2,896,032	2,972,712	6,066,588	676,764	42,725
2001	116,824,476	3,335,940	3,347,184	6,946,980	749,196	369,060
2002	132,059,052	3,746,064	3,531,648	7,624,128	785,868	805,155

*Schedule of Retired Members by Type of Benefit
As of June 30, 2002*

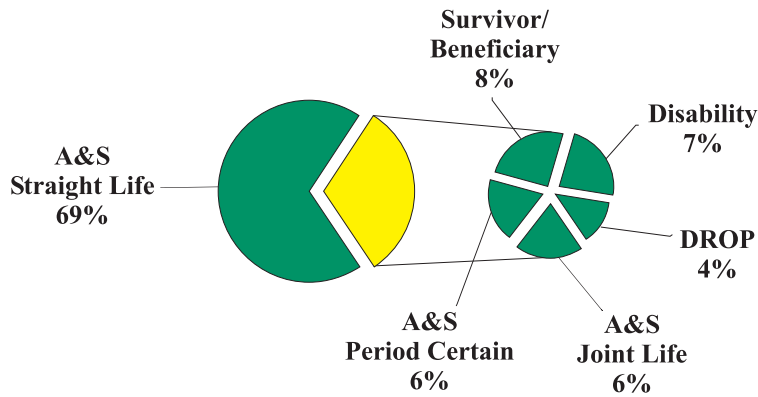
<u>Type of Annuity</u>	<u>Number</u>	<u>Annuities</u>	<u>Liabilities</u>
Age & Service Retirees			
Life	12,254	\$110,711,640	\$1,099,502,928
Option A- 60 (5 years certain)	304	2,722,632	29,238,156
Option A-120 (10 years certain)	758	6,421,512	61,195,236
Option B- 50 (joint and 50% survivor)	472	6,121,992	68,525,220
Option B- 75 (joint and 75% survivor)	486	4,927,152	62,288,724
Option B-100 (joint and 100% survivor)	90	1,154,124	14,262,924
Totals	14,364	132,059,052	1,335,013,188
Beneficiaries of Age & Service Retirees			
Life	60	344,940	3,990,192
Option A- 60	11	87,204	1,285,872
Option A-120	78	549,444	7,018,716
Option B- 50	162	962,100	8,113,896
Option B- 75	169	1,227,576	11,940,636
Option B-100	35	574,800	4,261,044
Totals	515	3,746,064	36,610,356
Total Age & Service Retirees & Beneficiaries	14,879	135,805,116	1,371,623,544
Disability Retirees			
Life	969	6,169,524	76,156,236
Option A- 60	43	231,228	3,168,480
Option A-120	92	576,768	7,067,472
Option B- 50	44	305,136	4,082,724
Option B- 75	59	341,472	4,994,268
Option B-100	0	0	0
Totals	1,207	7,624,128	95,469,180
Beneficiaries of Disability Retirees			
Life	19	121,932	1,416,804
Option A- 60	12	46,152	736,080
Option A-120	28	177,576	2,611,908
Option B- 50	18	65,916	851,376
Option B- 75	69	363,108	4,341,336
Option B-100	1	11,184	34,140
Totals	147	785,868	9,991,644
Total Disability Retirees & Beneficiaries	1,354	8,409,996	105,460,824
Death-in-Service Beneficiaries	678	3,531,648	46,710,180
Total Retirees & Beneficiaries	16,911	\$147,746,760	\$1,523,794,548
DROP Participants	837	19,822,753	284,785,152
GRAND TOTAL	17,748	\$167,569,513	\$1,808,579,700

*Schedule of Average Benefit Payments
As of June 30, 2002*

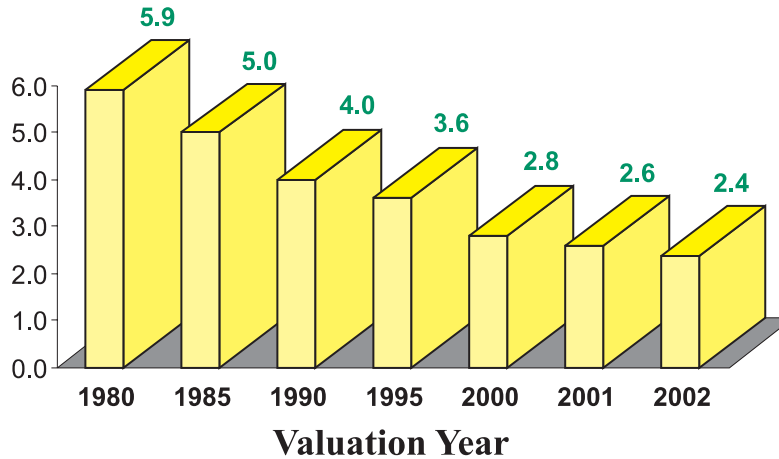
	Years of Credited Service				
	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>
Retirement Effective Dates					
<u>July 1, 2001 to June 30, 2002</u>					
Avg. Monthly Benefit	\$335.67	\$497.34	\$711.95	\$1,351.57	\$1,718.00
Avg. Monthly Final Average Salary	1,782.72	1,917.29	2,100.41	2,616.97	2,880.31
Number of Active Retirants	239	186	186	223	75
Retirement Effective Dates					
<u>July 1, 2000 to June 30, 2001</u>					
Avg. Monthly Benefit	337.33	487.66	882.16	1,424.47	1,682.48
Avg. Monthly Final Average Salary	1,610.46	1,727.96	2,166.33	2,645.23	2,721.56
Number of Active Retirants	250	197	199	175	96
Retirement Effective Dates					
<u>July 1, 1999 to June 30, 2000</u>					
Avg. Monthly Benefit	300.93	512.02	781.64	1,613.64	1,950.29
Avg. Monthly Final Average Salary	1,508.08	1,824.09	2,092.98	2,800.37	3,037.89
Number of Active Retirants	211	182	152	231	136
Retirement Effective Dates					
<u>July 1, 1998 to June 30, 1999</u>					
Avg. Monthly Benefit	374.81	567.91	767.38	1,174.69	1,952.79
Avg. Monthly Final Average Salary	1,501.48	1,718.13	1,920.84	2,100.51	2,704.04
Number of Active Retirants	374	241	201	111	220
Retirement Effective Dates					
<u>July 1, 1997 to June 30, 1998</u>					
Avg. Monthly Benefit	373.63	598.28	748.68	1,110.36	1,953.07
Avg. Monthly Final Average Salary	1,492.85	1,736.56	1,738.57	2,015.99	2,669.19
Number of Active Retirants	248	191	117	88	209
Retirement Effective Dates					
<u>July 1, 1997 to June 30, 2002</u>					
Avg. Monthly Benefit	348.64	534.50	782.01	1,390.74	1,893.22
Avg. Monthly Final Average Salary	1,572.37	1,780.10	2,022.70	2,541.00	2,776.08
Number of Active Retirants	1,322	997	855	828	736

Statistical Charts
As of June 30, 2002

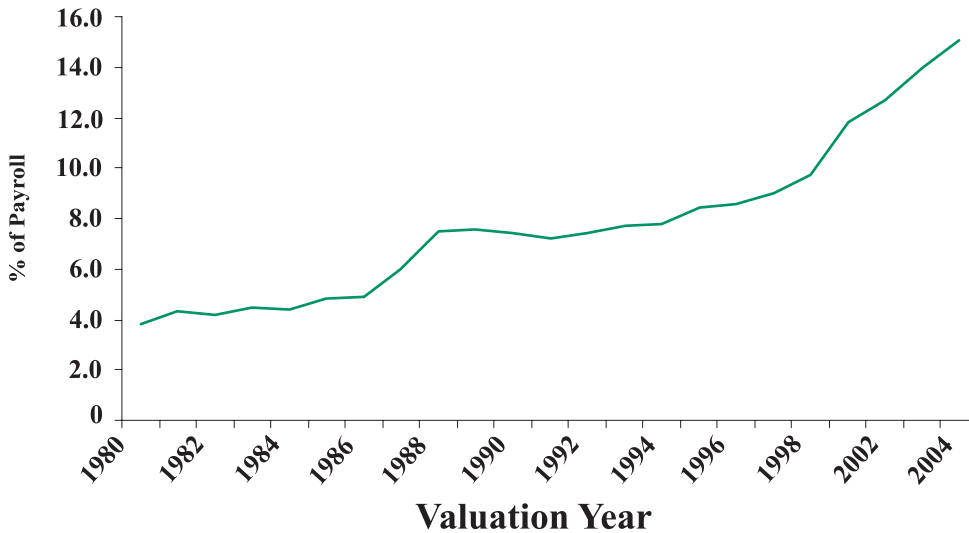
Annuities Being Paid By Type



Active Members Per Retired Life



Retirement Benefits Being Paid
As a Percent of Member Payroll



Schedule of Participating Employers

State Agencies

Abstractors Board of Examiners	Calhoun County Conservation District
Administrative Office of the Courts	Capitol Zoning District Commission
Administrative Office of the Courts - Director	Carroll County Conservation District
Arkansas Crime Information Center	Chicot County Conservation District
Arkansas Development Finance Authority	Claims Commission
Arkansas Public Defender Commission	Clark County Conservation District
Arkansas Appraisers Licensing/Certification	Clay County Conservation District
Arkansas State Capitol Police	Cleburne County Conservation District
Arkansas County Conservation District	Code Revision Commission
Arkansas Dietetic Licensing Board	Columbia County Conservation District
Arkansas Economic Development Commission	Constitutional Officers
Arkansas Ethics Commission	Contractors Licensing Board
Arkansas Heritage	Conway County Conservation District
Arkansas Minority Health Commission	Cossatot Conservation District
Arkansas Sentencing Commission	Cossatot Technical College
Arkansas State Board of Optometry	Court of Appeals
Arkansas State University - Beebe	Court Reporters
Arkansas State University - Jonesboro	Craighead County Conservation District
Arkansas State University-Newport	Crawford County Conservation District
Arkansas State University - Mountain Home	Crittenden County Conservation District
Arkansas Tech University	Crooked Creek Conservation District
Arkansas Tobacco Control Board	Cross County Conservation District
Arkansas Towing and Recovery Board	Crowley's Ridge Technical Institute
Arkansas Transitional Employment Board	Dallas County Conservation District
Ashley County Conservation District	Department of Aeronautics
Assessment Coordination Department	Department of Community Punishment
Attorney General	Department of Corrections
Auctioneers Licensing Board	Department of Emergency Management
Auditor of State	Department of Environmental Quality
Baxter County Conservation District	Department of Finance & Administration
Benton County Conservation District	Department of Health
Board of Accountancy	Department of Higher Education
Board of Architects	Department of Human Services
Board of Barber Examiners	Department of Information Systems
Board of Chiropractic Examiners	Department of Labor
Board of Collection Agencies	Deputy Prosecuting Attorney
Board of Cosmetology	Desha County Conservation District
Board of Dental Examiners	Disability Determination for Social Security Admin.
Board of Dispensing Opticians	Disabled Veterans Service
Board of Embalmers/Funeral Directors	Division of Legislative Audit
Board of Examiners in Counseling	Drug Task Force - 1st & 3rd Judicial Districts
Board of Examiners in Speech/Language/Pathology	Drug Task Force - 5th Judicial District
Board of Massage Therapy	Drug Task Force - 8th Judicial District
Board of Nursing	Drug Task Force - 10th Judicial District
Board of Pharmacy	Drug Task Force - 13th Judicial District
Board of Physical Therapy	Drug Task Force - 14th Judicial District
Board of Registry for Professional Engineers	Drug Task Force-15th Judicial District
Board of Registry for Professional Geologists	Drug Task Force - 18th Judicial District
Boone County Conservation District	Drug Task Force - Batesville
Buffalo River Conservation District	East Arkansas Community College
Burial Association Board	Educational Television Commission

(Continued)

Statistical Section

State Agencies (Continued)

Employment Security Division
Examiners in Psychology
Faulkner County Conservation District
Fire Protection Licensing Board
Forestry Commission
Franklin County Conservation District
Fulton County Conservation District
Game & Fish Commission
Game & Fish Commission - Wildlife Officer
Garland County Community College
Garland County Conservation District
General Assembly - House
General Assembly - Senate
Geological Commission
Governor's Office
Grant County Conservation District
Greene County Conservation District
Hempstead County Conservation District
Henderson State University
History Commission
Hot Spring County Conservation District
House Speaker's Office
Independence County Conservation District
Insurance Department
Izard County Conservation District
Jackson County Conservation District
Jefferson County Conservation District
Johnson County Conservation District
Judicial Discipline/Disability Commission
Lafayette County Conservation District
Law Enforcement Standards
Lawrence County Conservation District
Lee County Conservation District
Legislative Council
Lieutenant Governor
Lincoln County Conservation District
Liquified Petroleum Gas Division
Little River Conservation District
Livestock & Poultry Commission
Logan County Conservation District
Lonoke County Conservation District
Madison County Conservation District
Manufactured Home Commission
Martin Luther King Jr. Commission
Medical Board
Miller County Conservation District
Mine Creek Conservation District
Mississippi County Community College
Mississippi County Conservation District
Monroe County Conservation District
Motor Vehicle Commission
Nevada County Conservation District
Newton County Conservation District
North Arkansas College
Northwest Arkansas Community College
Office of Information Technology
Office of Rural Advocacy
Oil & Gas Commission
Ouachita County Conservation District
Ozarka Technical College
Parks & Tourism
Perry County Conservation District
Petit Jean Technical College
Phillips Community College - U of A
Phillips County Conservation District
Pike County Conservation District
Poinsett County Conservation District
Pope County Conservation District
Post Prison Transfer Board
Poteau River Conservation District
Saline County Conservation District
Senate Clerk
Sharp County Conservation District
Social Work Licensing Board
Soil & Water Commission
South Arkansas Community College
Southeast Arkansas Technical College
Southern Arkansas University
Southern Arkansas University Tech
Spinal Cord Commission
St. Francis County Conservation District
State Bank Department
State Board of Election Commissioners
State Building Services
State Crime Lab
State Land Commission
State Library
State Military Department
State Plant Board
State Police (Non-Troopers)
State Treasurer
Title Insurance Agents Licensing Board
Washington County Conservation District
Waterways Commission
Westark Community College
White County Conservation District
Woodruff County Conservation District
Worker's Compensation Commission
Yell County Conservation District

(Continued)

County Employers

Arkansas
 Arkansas River Valley Regional Library
 Ashley
 Association of Counties
 Baxter
 Benton
 Boone
 Bradley
 Calhoun
 Carroll
 Chicot
 Clark
 Clay
 Clay County - Western District
 Cleburne
 Cleveland
 Columbia
 Conway
 Craighead
 Crawford
 Crittenden
 Crittenden Co. Drainage District
 Cross
 Dallas
 Desha
 Drew
 East Central Arkansas Regional Library
 Faulkner
 Franklin
 Fulton
 Garland
 Grant
 Grassy Lake - Tyronza Drainage
 Greene
 Hempstead
 Hot Spring
 Howard
 Independence
 Izard
 Jackson
 Jefferson
 Johnson
 Lafayette
 Lawrence
 Lee
 Lincoln
 Little River
 Logan
 Lonoke
 Madison
 Marion

Miller
 Mississippi
 Monroe
 Montgomery
 Nevada
 Newton
 North Arkansas Regional Library
 Ouachita
 Perry
 Phillips
 Pike
 Poinsett
 Polk
 Pope
 Prairie
 Pulaski
 Randolph
 Randolph County Nursing Home
 Saline
 Scott
 Searcy
 Sebastian
 Sevier
 Sharp
 St. Francis
 Stone
 Union
 Van Buren
 Washington
 White
 White County Public Library
 White River Regional Library
 Woodruff
 Yell
 Yell County Library

Municipal Employers

Alma
 Alma Water & Sewer Department
 Arkansas Local Police & Fire Retirement System
 Arkadelphia
 Arkansas City
 Arkansas Municipal League
 Ash Flat
 Ashdown
 Beebe
 Bentonville
 Biscoe
 Bono

(Continued)

Municipal Employers (Continued)

Augusta	Hazen
Batesville Water Works	Heber Springs
Bradford Water & Sewer System	Holly Grove
Brinkley	Hope
Brinkley Municipal Water Service	Hope Water & Light
Bryant	Horatio
Cabot	Hot Springs
Caddo Valley	Hot Springs Advertising & Promotion Commission
Calico Rock	Humnoke
Camden Water & Utilities	Huntington
Cammack Village	Huttig
Carlisle	Jacksonville
Cave City	Jacksonville Wastewater Utility
Central Arkansas Water	Jacksonville Water Commission
Charleston	Jasper
Cherry Valley	Lamar
Clarksville	Lepanto
Clinton	Lewisville
Clinton Water & Sewer	Lincoln
Corning	Little Rock Wastewater Utility
Cotter	Lockesburg
Crossett	Lowell
Crossett Water Commission	Magnolia
Des Arc	Magnolia Sewer Department
Dierks	Malvern
Dover	Mammoth Spring
El Dorado Water Works	Marked Tree
Elm Springs	Marshall
England	Marvell
Eudora	McGehee Water & Sewer System
Farmington	McRae
Flippin	Melbourne
Fordyce	Mena
Fordyce Water & Sewer	Mena Water & Sewer
Foreman	Monette
Forrest City	Monticello
Fort Smith Public Library	Morrilton
Fountain Hill	Mount Ida
Fulton	Mount Pleasant
Gassville	Mountain Pine
Gravette	Mountain View
Green Forest	Nashville
Gum Springs	North Little Rock Advertising & Promotion Comm.
Hackett	Norman
Hamburg	Ola
Hampton	Pangburn
Hardy	Paragould
Harrisburg	Paris
Harrisburg Water & Gas Division	Paul Sullins Public Library
Harrison	Perryville
Haskell	Piggott

(Continued)

Municipal Employers (Continued)

Piggott Light & Water System
 Plumerville
 Prairie Grove
 Prescott
 Quitman
 Rison
 Rogers
 Rogers Water Utilities
 Russellville
 Salem
 Searcy
 Shannon Hills
 Sheridan
 Shirley
 Smackover
 Stamps
 Star City
 Star City Water & Sewer
 Stuttgart
 Stuttgart & North Arkansas County Library
 Summit
 Van Buren
 Van Buren Municipal Utilities
 Vilonia Waterworks Association
 Viola
 Warren
 Warren Water & Sewer
 West Fork
 Western Grove
 Wilmar
 Wynne
 Wynne Municipal Utilities
 Yellville

School Employers

Acorn
 Alma
 Alpena
 Altheimer Unified
 Altus-Denning
 Arkadelphia
 Ashdown
 Atkins
 Augusta
 Bald Knob
 Barton Lexa
 Batesville
 Bauxite
 Bay Brown
 Bearden
 Beebe
 Benton
 Bentonville
 Bergman
 Berryville
 Biggers-Reyno
 Bismarck
 Black Rock
 Blevins
 Blytheville
 Booneville
 Bradford
 Bradley
 Bright Star
 Brinkley
 Brookland
 Bryant
 Buffalo Island
 Cabot
 Caddo Hills
 Calico Rock
 Carlisle
 Carthage
 Cedarville
 Centerpoint
 Clarendon
 Clarksville
 Clay County Central
 Clinton
 Concord
 Conway
 Cord-Charlotte
 Corning
 Cotter
 Cotton Plant
 County Line

(Continued)

School Employers (Continued)

Crawfordsville	Greenwood
Cross County	Gurdon
Crossett	Hamburg
Cushman	Hampton
Cutter Morning Star	Harrisburg
Danville	Harrison
Dardenelle	Hartford
Decatur	Hazen
Deer	Heber Springs
Delta Special	Hector
DeQueen	Helena-West Helena
Dermott Special	Hermitage
Des Arc	Highland
DeValls Bluff	Holly Grove
DeWitt	Hope
Dollarway	Horatio
Dover	Hot Springs
Drew Central	Hoxie
Dumas	Huntsville
Earle	Huttig
East End	Izard County Consolidated
East Poinsett County	Jackson County Schools
El Dorado	Jasper
Elaine	Jessieville
Emerson	Jonesboro
England	Junction City
Eudora	Kingston
Eureka Springs	Lake Hamilton
Evening Shade	Lakeside - Hot Springs
Fairview	Lakeside - Lake Village
Farmington	Lakeview
Fayetteville	Lamar
Flippin	Lavaca
Fordyce	Lead Hill
Foreman	Lee County
Forrest City	Lewisville
Fort Smith	Lincoln Consolidated
Fouke	Little Rock
Fountain Lake	Lonoke
Fourche Valley	Magazine
Genoa Central	Magnet Cove
Gentry	Magnolia
Gillett	Malvern
Glen Rose	Manila
Gosnell	Mansfield
Gould	Marion
Grady	Marion County Rural
Gravette	Marked Tree
Green Forest	West Memphis Cafeteria
Greenbrier	West Side
Greene County Tech	Western Yell County

(Continued)

School Employers (Continued)

Marmaduke	Quitman
Marshall	Randolph
Marvell	River Valley
Maynard	Riverside
McCrary	Riverview
McGehee	Rogers
McNeil	Rural Special
McRae	Russellville
Melbourne	Saratoga
Mena	Salem Consolidated
Midland	Scotland
Mineral Springs	Scranton
Monticello	Searcy
Mount Vernon-Enola	Sheridan
Mountain Home	Shirley
Mountain Pine	Siloam Springs
Mountain View	Sloan-Hendrix
Mountainburg	Smackover
Mt. Holly	South Central Service Cooperative
Mt. Ida	South Conway County
Mt. Pleasant	South Mississippi County
Murfreesboro	Sparkman
Nashville	Springdale
Nettleton	St. Paul
Nevada	Stamps Special
Newark	Star City
Newport Special	Stone County
Norfolk	Strong
Norphlet	Stuttgart
North Little Rock	Sulphur Rock
Oark	Taylor
Oden	Texarkana
Omaha	Trumann
Osceola	Turrell
Ozark	Umpire
Palestine-Wheatley	Union
Paragould	Valley Springs
Paron	Valley View
Paris	Van Buren
Parkers Chapel	Van Cove
Parkin	Vilonia
Pea Ridge	Viola
Piggott	Waldron
Pine Bluff	Walker
Plainview Rover	Walnut Ridge
Pleasant View	Warren
Pocahontas	Watson Chapel
Pottsville	Weiner
Prescott	West Fork
Pulaski County Special	West Memphis

(Continued)

School Employers (Continued)

Westside
Westside Consolidated
White County Central
White Hall
Wickes
Williford
Witt Springs
Wonderview
Woodlawn
Wynne
Yellville Summit

Other Non-State Employers

Blytheville-Gosnell Regional Airport
Boone County Airport
Clark County Country Water Facilities
Cleveland County Solid Waste Authority
Hot Spring County Regional Solid Waste Authority
Kimzey Regional Water District
Nevada County Prescott Solid Waste Management
North Garland County Regional Waste District
Pulaski County Regional Solid Waste
Riversouth Rural Water District
Saline County Regional Solid Waste Management Dist.
South Sebastian County Water User Association
SW Boone County Water Association
Tri- County Solid Waste Authority
Upper SW Arkansas Solid Waste Management District
Washington Water Authority
Marion County Regional Airport

***Arkansas Public Employees Retirement System
One Union National Plaza, Suite 400
124 West Capitol
Little Rock, AR 72201
501-682-7800 or 1-800-682-7377***
