

Arkansas Public Employees Retirement System



2003 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, 2003***

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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Introduction

Letter of Transmittal

Letter from the Board Chair

A Brief History of APERS

Board of Trustees

**Organizational Chart and
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**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

December 15, 2003

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 2003 Annual Financial Report of the Arkansas Public Employees Retirement System (“APERS” or the “System”) for the fiscal year ended June 30, 2003. 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 2.52%. 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

For the first year in three, the fund enjoyed a positive investment return of 5.53%. It will take several more years to complete the actuarial recognition of previous investment losses. Nevertheless, it is important to recognize that the Arkansas Public Employees Retirement System is maintained on an actuarially sound basis as certified in this report by our actuary, thus protecting the future benefits of all participants. We anticipate that investment earnings will meet or exceed actuarially assumed earnings rates in the coming years. Assets currently represent 95% of accrued benefit liabilities. Act 339 passed by the 2003 General Assembly directs APERS to develop a contributory program by 2005. At that time, all covered employees first hired on or after July 1, 2005, will contribute 5% of their salary into the plan. This program will further enhance the strength of the plan well into the future while providing a richer benefit to the member.

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 2003 totaled approximately \$316.7 million (see Table 1).

The overall additions increased approximately \$432.1 million compared to those of fiscal year 2002 due primarily to higher investment earnings and employers' contributions. The Investment Section of this report reviews activity and the results of the investment portfolio for fiscal year 2003. The net assets of the System approached \$3.9 billion on June 30, 2003, an increase of approximately \$141.8 million from 2002.

TABLE 1. OPERATING ADDITIONS

Employer contributions	\$ 115,690,798
Employee contributions	159,642
Investment earnings	191,929,218
Miscellaneous additions	<u>8,874,658</u>
TOTAL	<u>\$ 316,654,316</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 2003 totaled approximately \$174.8 million (see Table 2), an increase of approximately 11% over fiscal year 2002 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 increase in Plan net assets was approximately \$141.8 million during fiscal year 2003.

TABLE 2. OPERATING DEDUCTIONS

Benefit payments	\$ 169,763,198
Refunds of contributions	678,143
Administrative expenses	<u>4,370,719</u>
TOTAL	<u>\$ 174,812,060</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, 2003, amounted to \$4.7 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 2003, investments provided a 5.53% rate of return. The System's annualized rate of return over the last three years was approximately (1.46%).

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

December 11, 2003

Dear Members of the Arkansas Public Employees Retirement System:

As a board, we are pleased to report that the Arkansas Public Employees Retirement System (“APERS” or “System”) is of sound financial condition. The assets accumulated to pay your retirement benefits are carefully invested to ensure the 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.

Fiscal 2003 began much the same way the fiscal 2002 concluded: daily media accounts of the latest corporate accounting scandals, and virtually no positive investment returns to be found in the global capital markets. Interest rates were moving toward their lowest levels in nearly fifty years, as the Federal Reserve attempted to head off further economic deterioration. However, the bear market seemed to growl its last in February. By the conclusion of the year at June 30, 2003, the stock market had regained a bullish tone, with APERS attaining a 5.53% annual rate of return on the investment portfolio. While this figure is below the long-term actuarial assumption of 8.0%, it did place the System in the top 25% of all state level funds. We recognize our professional investment advisors for their outstanding performance in this rapidly changing market environment.

We also commend the Governor and the Legislature for their support and commitment to keeping the System actuarially sound and funded in accordance with a prudent funding plan.

As Board Chair, I assure you that all of the board trustees have the best interests of the System and the membership always in mind as we direct the investments and all other operations of APERS. As your board, we also recognize the dedication and excellent work of the entire administrative staff of the System; they are committed to delivering the highest quality customer service.

On behalf of the APERS Board of Trustees,

Sincerely,


Larry Fratesi
Board Chair

A Brief History of The Arkansas Public Employees Retirement System

The Arkansas Public Employees Retirement System was created by Act 177 of 1957. The System originally provided only for the retirement of State employees but through the years has added county employees (Act 42 of 1959), municipal employees (Act 64 of 1961), college and university employees (Act 149 of 1963), non-teaching public school employees (Act 63 of 1965), and other non-state employees (various Acts). Effective July 1, 1989 (Act 653 of 1989) all newly hired public school employees are enrolled in the Arkansas Teacher Retirement System.

From 1957 through 1977, all APERS members participated in a contributory plan whereby employers and employees made contributions to the System.

However, Act 793 of 1977 created a non-contributory retirement plan where only employers contribute. Anyone first enrolled in the System after January 1, 1978, is automatically placed in the non-contributory plan.

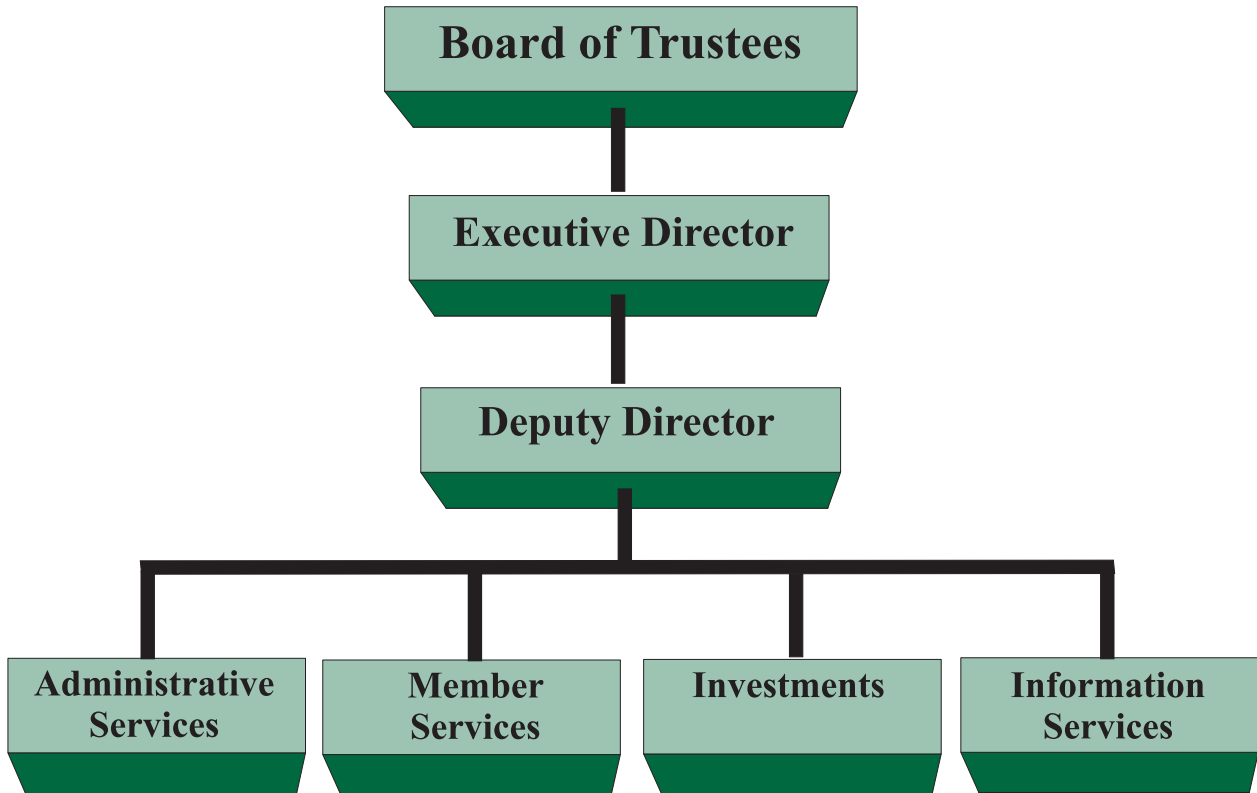
Act 325 of 1999 requires that employees who are retired from another state sponsored retirement plan (i.e. ATRS, LOPFI, Arkansas State Highway System, etc.), who are working in a position covered by APERS, and who meet the eligibility requirements, must be reported to APERS.

Board of Trustees

Member	Expiration Of Term
The Honorable Larry Fratesi Chair Jefferson County Assessor	March 9, 2009
Mr. Jonathan R. Sweeney Vice Chair Deputy Director, Soil and Water Conservation Commission	March 9, 2007
Ms. Ouida Wright Quality Assurance Coordinator Conway Human Development Center	March 9, 2005
The Honorable Gus Wingfield State Treasurer	Ex Officio Member
The Honorable Jim Wood State Auditor	Ex Officio Member
Mr. Richard Weiss Director, Department of Finance and Administration	Ex Officio Member
Mr. Artee Williams Deputy Director, Department of Human Services	March 9, 2008*
Mr. Don Zimmerman Executive Director, Arkansas Municipal League	March 9, 2004
Mr. Maurice Henry Hope Schools	March 9, 2006

* Appointed November 12, 2003.

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, 2003**

Active Members

Number	42,879
Average Age	44.2 Years
Average Years	9.2 Years
Average Annual Salary	\$ 26,790

Inactive - Vested Members

Number	8,958
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Total Retirees

Number	18,838
Average Monthly Benefit	\$ 823

2003 Retirees

	Age and Service	Disability
Number	1,206	70
Average Age	61.1	52.3
Average Years of Service	18.0	14.1
Average Monthly Benefit	\$ 712	\$ 576



Financial Section

Legislative 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. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
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 fiduciary pension trust fund of the Arkansas Public Employees Retirement System (the "System"), an Office of Arkansas State government, administered by the Arkansas Public Employees Retirement System Board of Trustees as of and for the year ended June 30, 2003, 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, 2002 were audited by us and we expressed an unqualified opinion on them in our report dated March 21, 2003, 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.

As indicated above, the financial statements of the Arkansas Public Employees Retirement System are intended to present the financial position and the changes in financial position of only that portion of the fiduciary pension trust fund of the State that is attributable to the transactions of the Arkansas Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary pension trust fund for the Arkansas Public Employee Retirement System as of June 30, 2003, and the changes in its financial position thereof 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 forgoing 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 the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The 2002-2003 fiscal year supplementary information on pages 31 through 33 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

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
November 26, 2003

Statements of Plan Net Assets
June 30, 2003 and 2002

ASSETS	<u>2003</u>	<u>2002</u>
Cash and Cash Equivalents	\$ 307,971,958	\$ 266,614,809
Securities Lending Collateral Investments in Cash Equivalents (Notes 3 & 5)	85,046,293	24,289,636
<u>Receivables:</u>		
Contributions	1,249,804	1,510,265
Investment Principal Receivable	42,257,698	117,580,155
Accrued Investment Income Receivable	<u>18,024,628</u>	<u>22,606,923</u>
Total Receivables	61,532,130	141,697,343
<u>Investments, At Fair Value (Notes 3, 4 & 5):</u>		
Government Securities:		
U.S. Government Securities	224,969,741	192,488,948
Government Agency Securities	446,898,220	512,851,675
Corporate Securities:		
Asset Backed Securities	86,521,339	86,045,938
Corporate Bonds	494,471,306	558,555,522
Commercial Loans	874,189	5,402,917
Corporate CMO	40,635,055	71,736,654
Convertible Bonds	82,920,414	79,905,402
Convertible Preferred Stock	19,541,207	20,708,503
Common Stock	1,223,168,940	1,177,916,681
Equity Index Funds	354,379,995	190,614,297
High Yield Income Fund	58,148,922	65,264,187
International Securities:		
Government Fixed Obligations	20,071,797	25,401,354
Corporate Fixed Income	350,202	0
Equity Securities	196,801,497	160,182,501
Equity Pooled Fund Units	203,212,461	189,798,868
Emerging Markets	37,444,343	35,893,443
Real Estate	62,105,003	61,203,464
Timberland	163,116,119	166,730,686
Municipal Bonds	<u>37,881,993</u>	<u>35,589,296</u>
Total Investments	3,753,512,743	3,636,290,336
<u>Securities Lending Collateral Investments, At Fair Value (Notes 3 & 5):</u>		
Corporate Bonds	460,678,934	679,199,190
Bank Obligations	178,940,350	0
Commercial Paper	<u>44,951,319</u>	<u>998,381</u>
Total Securities Lending Collateral Investments	684,570,603	680,197,571
Prepays and Other Assets	14,299,157	8,917
Fixed Assets, Net	<u>73,592</u>	<u>98,485</u>
TOTAL ASSETS	4,907,006,476	4,749,197,097
LIABILITIES		
Accrued Expenses and Other Liabilities	5,566,972	4,035,397
Investment Principal Payable	249,159,215	299,853,139
Securities Lending Liability	<u>769,616,896</u>	<u>704,487,207</u>
TOTAL LIABILITIES	1,024,343,083	1,008,375,743
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Note 6)	<u>\$ 3,882,663,393</u>	<u>\$ 3,740,821,354</u>

(A Schedule of Funding Progress is on page 32.)

**Statements of Changes in Plan Net Assets
For the Years Ending June 30, 2003 and 2002**

ADDITIONS	<u>2003</u>	<u>2002</u>
<u>Contributions:</u>		
Employer	\$ 115,690,798	\$ 109,037,491
Plan Members	<u>159,642</u>	<u>221,186</u>
Total Contributions	<u>115,850,440</u>	<u>109,258,677</u>
<u>Investment Income:</u>		
Interest	89,645,117	107,623,524
Dividends	24,105,818	20,390,875
Net Appreciation in Fair Value of Plan Investment	83,393,618	(353,640,844)
Security Lending Income	15,012,022	17,707,750
Real Estate Income	3,170,322	2,674,774
Other	<u>(3,200)</u>	<u>0</u>
Total Investment Income	215,323,697	(205,243,921)
Less: Investment Expense	<u>23,394,479</u>	<u>27,497,262</u>
Net Investment Income	<u>191,929,218</u>	<u>(232,741,183)</u>
<u>Other Sources:</u>		
Miscellaneous Additions	2,503,720	1,909,387
Transfer from Teachers Retirement System	6,317,993	6,106,234
Miscellaneous Transfers from State Agencies	<u>52,945</u>	<u>51,328</u>
Total Other Additions	<u>8,874,658</u>	<u>8,066,949</u>
TOTAL ADDITIONS	<u>316,654,316</u>	<u>(115,415,557)</u>
DEDUCTIONS		
Benefits	169,763,198	153,007,132
Refunds of Contributions	678,143	805,155
Administrative Expenses	<u>4,370,719</u>	<u>4,067,319</u>
TOTAL DEDUCTIONS	<u>174,812,060</u>	<u>157,879,606</u>
NET INCREASE	141,842,256	(273,295,163)
Reserve Adjustments	(217)	100
NET ASSETS (Note 6)		
Beginning of Year	<u>3,740,821,354</u>	<u>4,014,116,417</u>
End of Year	<u>\$ 3,882,663,393</u>	<u>\$ 3,740,821,354</u>

See Notes to Financial Statements

Notes to Financial Statements
For the Years Ending June 30, 2003 and 2002

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, 2003 and 2002, the number of participating employers was as follows:

	<u>2003</u>	<u>2002</u>
State	241	241
County	85	87
Municipal	152	151
School	260	263
Other Non-State	<u>17</u>	<u>18</u>
Total	<u>755</u>	<u>760</u>

As of June 30, 2003 and 2002, membership was as follows:

Retirees and beneficiaries receiving benefits	18,838	17,748
Terminated plan members entitled to but not receiving benefits	8,958	8,361
Active Plan Members	42,879	42,230

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, 2003 and 2002, are as follows:

	<u>2003</u>	<u>2002</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%	10.00%
Municipal Division	10.00%	10.00%
School Division	4.00%	4.00%
Other Non-State Division	10.00%	10.00%

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 or at any age with 25 years of actual service. APERS also provides for disability and survivor benefits.

Tax Status - During the fiscal years ended June 30, 2003 and 2002, 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 17.3% 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, 2003 and 2002:

As presented in the Statement of Plan Net Assets.

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents, including securities lending cash collateral	\$ 393,018,251	\$ 290,904,445
Investments, including securities lending collateral investments	<u>4,438,083,346</u>	<u>4,316,487,907</u>
Total	<u>\$ 4,831,101,597</u>	<u>\$ 4,607,392,352</u>
As presented in (a) and (b) below:		
	<u>2003</u>	<u>2002</u>
Deposits	\$ 674,228	\$ 2,001,920
Investments	<u>4,830,427,369</u>	<u>4,605,390,432</u>
Total	<u>\$ 4,831,101,597</u>	<u>\$ 4,607,392,352</u>

Listed below is a summary of the deposit and investment portfolio as of June 30, 2003 and 2002. Investing is governed by the prudent investor rule (in accordance with A.C.A. 24-2-601 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, 2003 and 2002 is as follows:

<u>June 30, 2003</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Insured deposits	<u>\$ 12,941,913</u>	<u>\$</u>	<u>\$</u>	<u>\$ 12,941,913</u>
Total deposits	<u>\$ 12,941,913</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,941,913</u>

Carrying amount of insured deposits totaling \$12,941,913 is \$663,222. In addition to cash deposits with financial institutions APERS has a petty cash fund of \$200 and cash in the State Treasury of \$10,806 at year end.

<u>June 30, 2002</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Insured deposits	<u>\$ 433,003</u>	<u>\$</u>	<u>\$</u>	<u>\$ 433,003</u>
Total deposits	<u>\$ 433,003</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 433,003</u>

Carrying amount of insured deposits totaling \$433,003 is \$434,710. In addition to cash deposits with financial institutions APERS has a petty cash fund of \$200 and cash in the State Treasury of \$1,567,010 at year end.

(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, 2003				
	Category 1	Category 2	Category 3	Total
Investments:				
<u>Categorized:</u>				
U.S. Government securities	\$ 424,726,887			\$ 424,726,887
Corporate securities	1,466,838,864			1,466,838,864
International securities	227,123,466			227,123,466
Municipal bonds	34,926,331			34,926,331
Total	<u>2,153,615,548</u>			<u>2,153,615,548</u>
<u>Uncategorized:</u>				
Mutual funds (STIF)				307,297,730
Commercial loans				874,189
Real estate				62,105,003
Timberland				163,116,120
Private placements				2,955,662
Domestic Pooled Funds				412,528,917
International Pooled Funds				210,824,138
Total				<u>1,159,701,759</u>
<u>Investments under securities loans</u>				
<u>for cash collateral:</u>				
U.S. Government securities				247,141,073
Corporate securities				480,419,397
International securities				19,932,696
Total				<u>747,493,166</u>
Total Investments	<u>\$ 2,153,615,548</u>			<u>\$ 4,060,810,473</u>
Invested cash collateral:				
<u>Categorized:</u>				
Corporate securities			\$ 460,678,934	460,678,934
Repurchase agreements			60,046,293	60,046,293
Commercial paper			44,951,319	44,951,319
Bank obligations			178,940,350	178,940,350
Total			<u>744,616,896</u>	<u>744,616,896</u>
<u>Uncategorized:</u>				
Mutual funds				25,000,000
Total invested cash			<u>\$ 744,616,896</u>	<u>\$ 769,616,896</u>

Collateral Credit Risk June 30, 2002				
Investments:	Category 1	Category 2	Category 3	Total
<u>Categorized:</u>				
U.S. Government securities	\$ 497,087,371			\$ 497,087,371
Corporate securities	1,549,288,708			1,549,288,708
International securities	180,377,655			180,377,655
Municipal bonds	32,051,386			32,051,386
Total	<u>2,258,805,120</u>			<u>2,258,805,120</u>
<u>Uncategorized:</u>				
Mutual funds (STIF)				264,612,889
Commercial loans				5,402,917
Real estate				61,203,464
Timberland				166,730,686
Private placements				3,537,910
Domestic Pooled Funds				255,878,484
International Pooled Funds				197,513,905
Total				<u>954,880,255</u>
<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				<u>687,217,850</u>
Total Investments	<u>\$ 2,258,805,120</u>			<u>\$ 3,900,903,225</u>
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			<u>704,487,207</u>	<u>704,487,207</u>
<u>Uncategorized:</u>				
Mutual funds				0
Total invested cash			<u>\$ 704,487,207</u>	<u>\$ 704,487,207</u>

4. DERIVATIVES

Mortgage-Backed Securities – As of June 30, 2003 and 2002, the System held mortgage-backed securities of approximately \$442 million and \$553 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, 2003 and 2002 the System held asset-backed securities with a fair value of approximately \$87 million and \$86 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, 2003 and 2002, the System had outstanding forward exchange currency contracts to sell foreign currencies with contract amounts of \$37,730,217 and \$21,213,784, respectively. Market values of these outstanding contracts were \$37,358,065 at June 30, 2003, and \$21,944,263 at June 30, 2002, resulting in net gains of \$372,152 and net losses of \$730,479 in fiscal years 2003 and 2002, respectively. The System also had outstanding forward currency contracts to purchase foreign currency with contract amounts of \$48,033,118 and \$8,852,130 at June 30, 2003 and 2002, respectively. Market values of these contracts were \$48,581,512 at June 30, 2003 and \$8,935,322 at June 30, 2002, resulting in net gains of \$548,394 and net gains of \$83,092 in fiscal years 2003 and 2002, respectively.

Pooled Funds - APERS has approximately \$211 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, 2003, there were no violations of the Agency Agreement. Certain securities of the trust fund are loaned to participating brokers. As of June 30, 2003, 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 28 days on June 30, 2003, whereas the weighted average loan maturity was 2 days. As of June 30, 2003 and 2002, investments with cash collateral were approximately \$770 million and \$704 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, 2003 and 2002, 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.

Tables on the following page explain reserve balances for the respective divisions for the fiscal years ending June 30, 2003 and 2002.

Each of the divisions and respective reserve balances at June 30, 2003 and 2002, are as follows:

2003 Reserve Balances

<u>June 30, 2003</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	\$ 11,700,520	\$ 2,069,272	\$ 1,383,546	\$ 1,554,353	\$ 52,864	\$ 16,760,555
MDA Interest Reserve	2,672,577	437,821	197,444	372,952	3,429	3,684,223
Employer Accumulation Account	1,629,593,535	271,068,762	131,998,554	119,536,458	2,813,665	2,155,010,974
Retirement Reserve	960,171,622	245,436,357	90,426,426	179,329,876	256,597	1,475,620,878
Deferred Annuity	126,440,564	27,475,050	10,593,400	24,123,293	105,088	188,737,395
DROP Reserve	37,695,304	2,809,691	1,231,473	867,160	0	42,603,628
Delinquent Receivable Reserve	65	9	0	0	0	74
Refund Overpayment Receivable Reserve	351	0	0	0	0	351
Outlawed Warrants	45,517	5,210	1,213	7,641	0	59,581
Partial Purchase of Service Reserve	155,758	15,461	4,434	9,857	0	185,510
Petty Cash Reserve	200	0	0	0	0	200
MDA Receivable Reserve	24	0	0	0	0	24
Total	\$ 2,768,476,037	\$ 549,317,633	\$ 235,836,490	\$ 325,801,590	\$ 3,231,643	\$ 3,882,663,393

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	0	30,790,700
Delinquent Receivable Reserve	65	8	0	0	0	73
Refund Overpayment Receivable Reserve	351	0	0	0	0	351
Outlawed Warrants	35,123	2,818	1,075	6,935	0	45,951
Partial Purchase of Service Reserve	193,896	18,812	11,206	17,365	0	241,279
Petty Cash Reserve	200	0	0	0	0	200
MDA Receivable Reserve	241	0	0	0	0	241
Total	\$ 2,660,068,523	\$ 527,478,939	\$ 221,420,201	\$ 329,174,425	\$ 2,679,266	\$ 3,740,821,354

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***

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1995	\$ 81,377,144	100 %
1996	87,220,070	100
1997	90,483,587	100
1998	86,344,411	100
1999	92,121,452	100
2000	95,085,823	100
2001	99,395,764	100
2002	107,188,931	100
2003	113,273,142	100

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 Accrued Liability (AAL)	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll (Millions)	(6) UAAL (Excess) As Percentage of Covered Payroll (3)/(5)
6/30/95	\$ 2,248	\$ 2,060	(188)	109 %	\$ 835	(22.5)%
6/30/96	2,522	2,291	(231)	110	889	(26.0)
6/30/97	2,876	2,607	(269)	110	939	(28.6)
6/30/98 @#	3,297	2,921	(376)	113	975	(38.6)
6/30/99 @	3,712	3,479	(233)	107	1,009	(23.1)
6/30/00	4,121	3,803	(318)	108	1,050	(30.3)
6/30/01 @	4,342	4,111	(231)	106	1,070	(21.6)
6/30/02 #	4,404	4,398	(6)	100	1,112	(0.5)
6/30/03 #	4,416	4,674	258	95	1,148	22.5

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 legislated changes in benefit provisions.

After changes in actuarial 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, 2003
Actuarial Cost Method	Entry age
Amortization Method	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
Mortality Table	1983 Group Annuity Mortality Table

Supporting Schedule
Schedule of Administrative Expense
For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
PERSONNEL SERVICES:		
Salaries and wages	\$ 1,788,823	\$ 1,659,908
Employee benefits	295,187	271,383
Insurance	155,474	154,867
Other	<u>5,366</u>	<u>24,951</u>
Total Personnel Services	2,244,850	2,111,109
COMMUNICATIONS:		
Postage	102,736	98,861
Telecommunications	38,461	41,900
Printing and advertising	21,535	25,360
Freight and express	706	1,162
Subscriptions and publications	<u>11,572</u>	<u>6,415</u>
Total Communications	175,010	173,698
PURCHASES:		
Office Supplies	48,415	57,209
Equipment	<u>9,100</u>	<u>45,459</u>
Total Purchases	57,515	102,668
SERVICES AND CHARGES:		
Professional fees and services	150,470	144,150
Rent expense	367,654	334,066
Travel and conference fees	33,059	42,633
Taxes, licenses and permits	124	44
Repairing and servicing	46,835	57,000
Training fees	1,775	1,630
Insurance and surety bonds	3,331	3,959
Bank and federal service charges	23,965	22,722
Data processing charges	1,214,633	1,022,042
Claims commission expense	8,892	0
Uncollectible Receivables	<u>0</u>	<u>3,511</u>
Total Services and Charges	1,850,738	1,631,757
DEPRECIATION EXPENSE	<u>42,606</u>	<u>48,087</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$ 4,370,719</u></u>	<u><u>\$ 4,067,319</u></u>

***Supporting Schedule
Schedule of Investment Expense
For the Years Ended June 30, 2003 and 2002***

	<u>2003</u>	<u>2002</u>
Investment consultant fee	\$ 140,490	\$ 133,800
Money manager fees	10,513,774	11,341,292
Custodian bank fees	562,835	533,483
International withholding taxes	371,221	271,248
Securities lending expenses	<u>11,806,159</u>	<u>15,217,439</u>
TOTAL INVESTMENT EXPENSE	<u>\$ 23,394,479</u>	<u>\$ 27,497,262</u>

***Supporting Schedule
Schedule of Payments for Professional Consultants
For the Years Ended June 30, 2003 and 2002***

	<u>2003</u>	<u>2002</u>
Gabriel, Roeder, Smith & Company	\$ 148,670	\$ 142,200
Other	<u>1,800</u>	<u>1,950</u>
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	<u>\$ 150,470</u>	<u>\$ 144,150</u>

For fees paid to investment managers, please see "Schedule of Investment Fees" shown on page 50 in the Investment Section of this report.



Investments

Section

Report on Investments

Outline of Investment Policies

Actual vs. Target Asset Allocation

Manager Distribution

Portfolio Characteristics

Performance Comparisons

- Fiscal Years 1999 - 2003
- Current Year & Preceding 3-Year & 5-Year Rates of Return

List of Ten Largest Assets Held

**Schedule of Brokerage
Commissions**

Schedule of Investment Fees

**Comparative Schedule of
Investments**

CALLAN ASSOCIATES^{INC.}

Paul V. Troup III
Executive Vice President



September 23, 2003

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

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, 2003.

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

Fiscal year ending June 30, 2003 saw an improvement in returns and assets for the fund. For the second quarter, the S&P 500 Index rebounded sharply, rising 15.4%. For the second quarter, the Lehman Aggregate Bond Index climbed 2.5%. The MSCI EAFE Index advanced 19.3% for the second quarter. It was a good quarter.

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 6/30/03 is listed below:

	<u>Target</u>	<u>Actual</u>
Domestic Equity	45%	43%
International Equity	10%	10%
Domestic Fixed	35%	39%
International Fixed	0%	0%
Alternative Inv./Real Estate	10%	8%

The asset allocation is different from the target due to the positive returns for domestic fixed income.

For fiscal year ended 2003, the total fund rate of return, including gains, losses and income was 9.35%. 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.

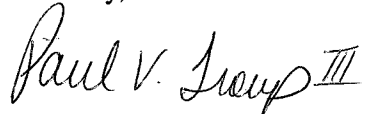
Over the past 5 years, the Fund has had an annualized return of 2.52%. This level of performance meets the performance objectives of the Fund which is to deliver a real rate of return (return in excess of the inflation rate) of 2.25%. However, the return failed to exceed the actuarially assumed interest rate assumption of 8%.

At the beginning of the year, the assets of the fund totaled \$3.73 billion; at June 30, 2003, the Fund assets totaled \$3.87 billion. Positive performance of the domestic fixed income markets over the year and is the more recent upswing of the equity markets brought the Fund to an increase in assets at fiscal year-end.

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 dark 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	Market Value Exposure	
	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:

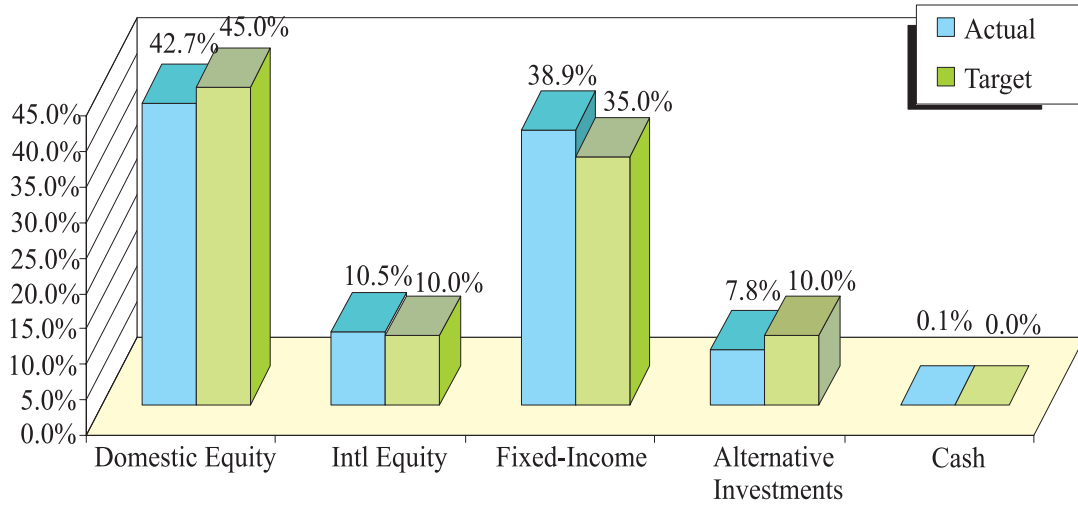
1. The manager structure;
2. The allocation of assets among the managers; and
3. The investment objectives for the Fund's assets.

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.

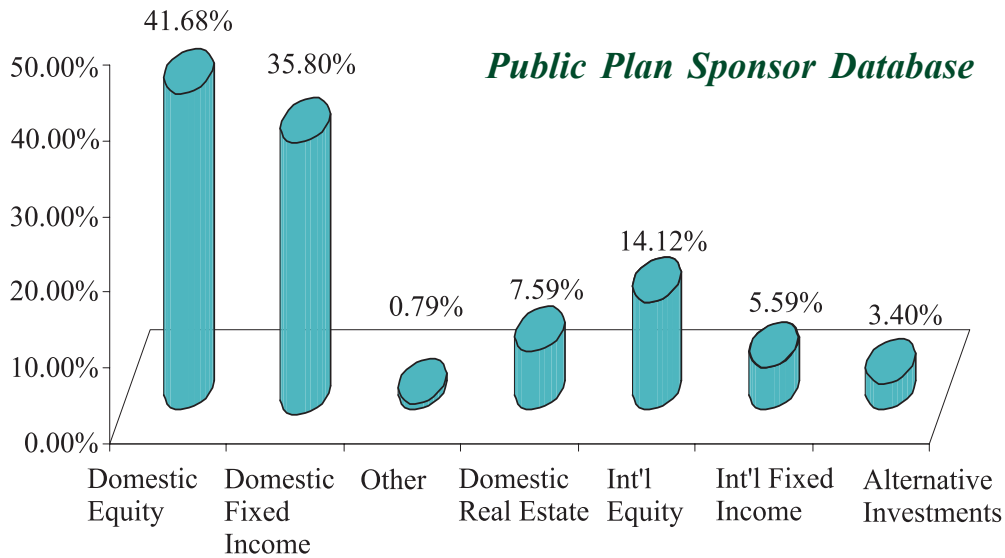
Actual vs. Target Asset Allocation

The first bar graph shows the Fund asset allocation as of June 30, 2003. In each pair of bars, the left-side bar represents the Actual Funds asset allocation; the right-side bar represents the Fund’s target asset allocation as outlined in the investment policy statement. The middle bar graph shows the average asset allocation for the Callan Associates Inc. Public Plan Sponsor Database.

Actual Asset and Target Asset Allocations

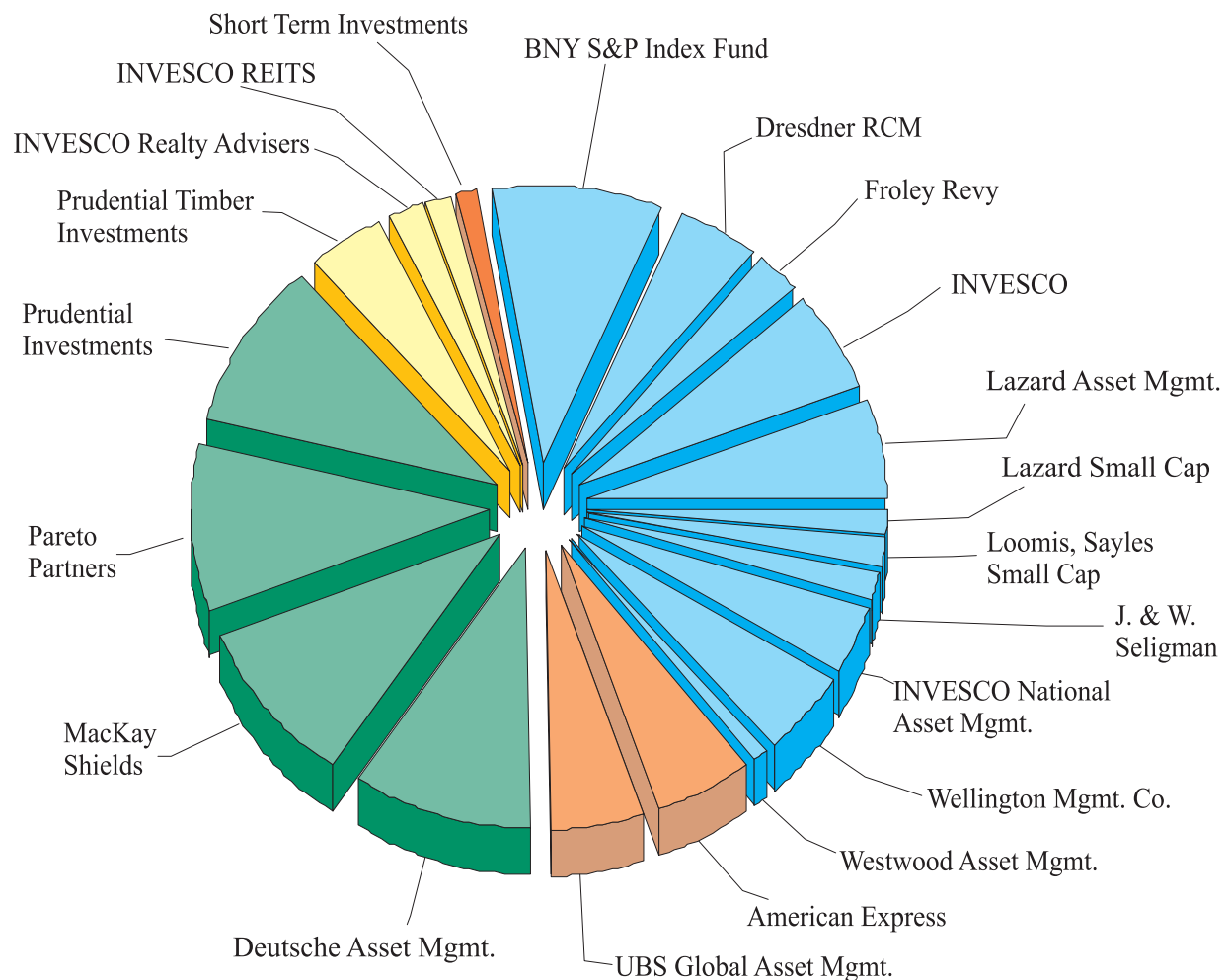


Public Plan Sponsor Database



Asset Class	\$ 000s Actual	Percent Actual	Percent Target	Percent Difference	\$ 000s Difference
Domestic Equity	\$ 1,653,424	42.7 %	45 %	(2.3) %	\$ (87,980)
Intl Equity	404,900	10.5	10	0.5	17,921
Fixed-Income	1,506,555	38.9	35	3.9	152,129
Alt. Investments	302,967	7.8	10	(2.2)	(84,012)
Cash	1,942	0.1	0	0.1	1,942
Total	\$ 3,869,788	100.0 %	100 %		

Manager Distribution for the Period Ended June 30, 2003



Asset Allocation	Market Value (\$ Thousands)	Percent Of Total	Asset Allocation	Market Value (\$ Millions)	Percent Of Total
Domestic Equity (\$1,653,424 - 42.73%)			Fixed Income (\$1,506,555 - 38.93%)		
BNY S&P Index Fund	354,380	9.2%	Deutsche Asset Mgmt.	375,865	9.7%
Dresdner RCM	171,832	4.4%	MacKay Shields	379,474	9.8%
Froley Revy	106,056	2.7%	Pareto Partners	377,322	9.8%
INVESCO	225,569	5.8%	Prudential Investments	373,894	9.7%
Lazard Asset Mgmt.	227,076	5.9%	Alternative Investments (\$302,967 - 7.83%)		
Lazard Small Cap	56,747	1.5%	Prudential Timber Inv.	164,116	4.2%
Loomis, Sayles Small Cap	61,850	1.6%	INVESCO Realty Advisers	76,334	2.0%
J. & W. Seligman	62,867	1.6%	INVESCO REITS	62,517	1.6%
INVESCO National Asset Mgmt.	157,847	4.1%	Short-term Investment Fund		
Wellington Mgmt. Co.	189,927	4.9%		1,942	0.1%
Westwood Asset Mgmt.	39,273	1.0%	COMPOSITE FUND		
International Equity (\$404,900 - 10.46%)				\$ 3,869,788	100%
American Express	201,688	5.2%			
UBS Global Asset Mgmt.	203,212	5.2%			

Portfolio Characteristics
Fiscal Years Ended June 30

	<u>2003</u>	<u>2002</u>
Selected Bond Characteristics:		
Yield to Maturity (Market)	4.11 %	5.95 %
Current Yield	5.26	6.17
Average Coupon Rate	5.12	5.96
Average Maturity	6.40 Yrs.	6.63 Yrs.
Quality Breakdown:		
AAA (Includes Govts. & Agencies)	56.00 %	56.00 %
AA	4.00	4.00
A	5.00	7.00
BAA	14.00	15.00
BA	5.00	6.00
B	4.00	3.00
Below C	2.00	0.00
*Cash	9.00	9.00
Selected Stock Characteristics:		
Average P/E Ratio	20.68 x	20.08 x
Estimated Earnings Growth Rate (Next 5 Years)	12.67 %	14.38 %
Current Yield	1.58	1.43

* Includes Short-Term Investment Fund.

Performance Comparisons
Fiscal Years Ended June 30

Fiscal Years Ended June 30	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Total Fund:					
Arkansas PERS	5.53 %	(5.74) %	(3.82) %	9.42 %	8.16 %
Callan Total Public Fund Median	3.74	(5.36)	(4.06)	10.00	10.65
Inflation (Consumer Price Index)	2.10	0.74	3.19	3.87	1.94
Equities:					
Arkansas PERS	(0.19) %	(16.39) %	(12.87) %	12.52 %	15.23 %
Callan Total Equity Database Median	(0.15)	(14.21)	(5.28)	11.63	14.44
Standard & Poor's 500 Index	0.25	(17.99)	(14.83)	7.24	22.76
International Equities:					
Arkansas PERS	(7.03) %	(5.93) %	(23.18) %	18.47 %	7.51 %
Callan Total Non-US Equities Database Median	(6.03)	(7.88)	(23.05)	23.98	7.64
MSCI-EAFE Index	(6.46)	(9.49)	(23.60)	17.15	7.62
Fixed Income:					
Arkansas PERS	12.30 %	6.04 %	9.72 %	4.64 %	3.28 %
Callan Total Fixed Income Database Median	10.52	7.98	11.03	4.57	3.48
Lehman Bros. Aggregate Index	10.40	8.63	11.22	4.57	3.15

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds).

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

<u>Fiscal Years Ended June 30</u>	2003	Annualized	
		<u>3-Year</u>	<u>5-Year</u>
Total Fund:			
Arkansas PERS	5.53 %	(1.46) %	2.52 %
Callan Total Public Fund Median	3.74	(1.66)	2.93
Inflation (Consumer Price Index)	2.10	2.01	2.38
Equities:			
Arkansas PERS	(0.19) %	(10.08) %	(1.17) %
Callan Total Equity Database Median	(0.15)	(5.92)	1.72
Standard & Poor's 500 Index	0.25	(11.20)	(1.61)
International Equities:			
Arkansas PERS	(7.03) %	(12.42) %	(3.07) %
Callan Total Non-US Equities Database Median	(6.03)	(12.28)	(0.83)
MSCI-EAFE Index	(6.46)	(13.52)	(4.00)
Fixed Income:			
Arkansas PERS	12.30 %	9.33 %	7.14 %
Callan Total Fixed Income Database Median	10.52	9.77	7.41
Lehman Bros. Aggregate Index	10.40	10.08	7.54
Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds).			

**List of Ten Largest Assets Held
As of June 30, 2003**

Domestic Fixed Income Holdings (By Market Value)

	<u>Par</u>	<u>Security</u>	<u>Market Value</u>
1)	\$ 42,218,000	US Treasury Note 1.625% 04/30/05	\$ 42,495,056
2)	21,860,000	US Treasury Note 6.5% 10/15/06	25,118,506
3)	14,883,000	US Treasury Bond 6% 02/15/26	17,789,836
4)	14,005,000	US Treasury Note 6% 08/15/09	16,521,523
5)	13,042,000	US Treasury Note 3% 02/15/08	13,421,033
6)	11,800,000	US Treasury Bond 5.25% 02/15/29	12,847,250
7)	11,997,166	FNMA Pool #254541 5% 12/01/09	12,373,038
8)	11,180,000	U S Treasury Note 4.375% 05/15/07	12,147,769
9)	10,040,000	Fed Nat'l Mtg. Assn. 6% 05/15/08	11,593,063
10)	10,060,000	US Treasury Note 3.875% 02/15/13	10,352,369
		<u>Total</u>	<u>\$ 174,659,443</u>

Domestic Equity Holdings (By Market Value)

	<u>Shares</u>	<u>Security</u>	<u>Market Value</u>
1)	1,224,880	Microsoft Corp.	\$ 31,405,923
2)	889,030	Pfizer Inc.	30,360,375
3)	711,274	Exxon Mobil Corp.	25,541,849
4)	588,806	CITIGROUP Inc.	25,200,897
5)	387,610	Johnson & Johnson	20,039,437
6)	884,120	INTEL Corp.	18,398,537
7)	339,300	Wal-Mart Stores Inc.	18,210,231
8)	199,500	International Business Machines	16,458,750
9)	149,550	Procter & Gamble Co.	13,336,869
10)	197,690	Fannie Mae	13,332,214
		<u>Total</u>	<u>\$ 212,285,082</u>

*List of Ten Largest Assets Held
As of June 30, 2003*

International Equity Holdings (By Market Value)

	<u>Shares</u>	<u>Security</u>	<u>Market Value</u>
1)	409,797	Glaxo Smith Kline PLC	\$ 8,270,326
2)	45,887	TOTAL SA Ser B	6,935,488
3)	3,532,484	Vodafone Group	6,907,580
4)	166,354	Novartis AG	6,584,385
5)	730,176	BP PLC	5,063,638
6)	425,851	HSBC Holdings PLC	5,031,507
7)	159,006	Royal Bank of Scotland Group	4,460,564
8)	66,400	Deutsche Bank AG	4,307,192
9)	75,155	UBS AG	4,181,753
10)	263,819	ENI SPA	<u>3,990,463</u>
		Total	<u>\$ 55,732,896</u>

**Schedule of Brokerage Commissions
As of June 30, 2003**

<u>Brokerage Firm</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Merrill Lynch	7,135,400	\$ 346,934	0.05
Deutsche Alex Brown	6,146,789	340,210	0.06
Lehman Brothers	6,150,359	329,333	0.05
Goldman Sachs	4,943,537	259,104	0.05
Morgan Stanley	3,215,430	146,272	0.05
Bear Stearns	2,955,170	140,398	0.05
CS First Boston Global	2,607,600	119,907	0.05
Salomon Smith Barney	1,895,443	87,546	0.05
UBS Paine Webber	1,842,044	81,495	0.04
CITIGROUP Global Markets	1,350,609	62,125	0.05
Cowen & Co.	1,261,360	56,317	0.04
J.P. Morgan	1,151,292	54,506	0.05
Banc of America Securities LLC	1,168,165	53,238	0.05
Wachovia	1,023,886	51,671	0.05
Jefferies	1,068,473	44,563	0.04
CIBC World Markets	887,825	42,628	0.05
Cantor Fitzgerald	737,275	36,085	0.05
Dain Rauscher Wessels	725,847	34,507	0.05
Prudential	680,890	33,347	0.05
Others (Includes 128 Brokerage Firms)	<u>16,310,760</u>	<u>660,930</u>	0.04
	<u>63,258,154</u>	<u>\$ 2,981,116</u>	0.05

**Schedule of Investment Fees
As of June 30, 2003**

<u>Equities</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Froley, Revy - Convertible Securities	\$ 106,055,949	\$ 396,541	40
INVESCO - Value	225,568,596	611,314	30
Lazard Asset Mgmt - Value	227,075,617	619,062	30
Lazard Asset Mgmt - Small Cap	56,747,285	253,150	50
Dresdner RCM - Growth	171,832,221	562,446	30
Loomis, Sayles - Small Cap	61,849,808	253,150	30
J & W Seligman - Growth	62,867,299	170,340	30
BNY S & P 500 Index Fund	354,379,995	85,081	3
Westwood Asset Mgmt. - Growth	39,237,255	286,182	77
INVESCO National Asset Mgmt - Growth	157,847,189	362,596	25
Wellington Mgt. Co. - Value	189,926,843	506,759	30
UBS Global Asset Mgmt - Int'l Value	203,212,461	861,175	50
American Express - Int'l Growth	<u>201,687,776</u>	<u>768,456</u>	50
Total Equity	\$ 2,058,288,294	\$ 5,736,252	

<u>Fixed Income</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Deutsche Asset Mgmt - Core Plus	\$ 375,864,521	\$ 649,545	20
MacKay Shields - Core Plus	379,474,169	793,744	20
Pareto Partners - Core Plus	377,321,912	787,619	20
Prudential Asset Mgmt - Core Plus	<u>374,163,639</u>	<u>796,822</u>	20
Total Fixed Income	\$ 1,506,824,241	\$ 3,027,730	

<u>Alternatives</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
PruTimber - Timberland	\$ 164,116,160	\$ 1,342,298	90
INVESCO Realty - Real Estate & REITS	<u>138,851,111</u>	<u>687,984</u>	65
Total Alternatives	\$ 302,967,271	\$ 2,030,282	

<u>Other Investment Services</u>	<u>Fee</u>
Bank of New York (Custodian)	\$ 468,898
Bank of New York (Securities Lending)	1,373,895
Callan Associates (Consultant)	<u>140,568</u>
Total Other Services	\$ <u>1,983,361</u>

Total Investment Service Fees	\$ <u>12,777,625</u>
--------------------------------------	-----------------------------

Comparative Schedule of Investments
For the Fiscal Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
U.S. Government Securities:		
U.S. Government Securities	\$ 224,969,741	\$ 192,488,948
U.S. Government Agency Securities	446,898,220	512,851,675
Corporate Securities:		
Asset Backed Securities	86,521,339	86,045,938
Corporate Bonds	494,471,306	558,555,522
Corporate CMO	40,635,055	71,736,654
Convertible Bonds	82,920,414	79,905,402
Convertible Preferred Stock	19,541,207	20,708,503
Common Stock	1,223,168,940	1,177,916,681
Equity Index Funds	354,379,995	190,614,297
High Yield Income Fund	58,148,922	65,264,187
International Securities:		
Government Fixed Obligations	20,071,797	25,401,354
Corporate Fixed Income	350,202	0
Equity Securities	196,801,497	160,182,501
Equity Pooled Fund Units	203,212,461	189,798,868
Emerging Markets	37,444,343	35,893,443
Real Estate	62,105,003	61,203,464
Timberland	163,116,119	166,730,686
Municipal Bonds	37,881,993	35,589,296
Commercial Loans/Mtg. Investments	<u>874,189</u>	<u>5,402,917</u>
TOTAL INVESTMENTS	<u>\$ 3,753,512,743</u>	<u>\$ 3,636,290,336</u>

IV

Actuarial Section

Actuary's Certification Letter

**Summary of Assumptions Used
in Actuarial Valuations**

**Summary of Actuarial Methods
and Assumptions**

**Active Member Valuation Data
- Comparative Statements**

Short Condition Test

Analysis of Financial Experience

**Analysis of Financial Experience
- Gains & Losses by Risk Area**

**Summary of Plan Provisions
(Contributory & Non-Contributory)**



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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December 3, 2003

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, 2003.

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

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

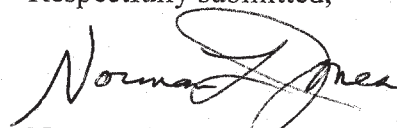
Schedule of Funding Progress

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, 2003 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1997-2002 period.

On the basis of the June 30, 2003 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, 2003 Valuation***

Economic Assumptions

The investment return rate used in making the valuation was 8.00% per year, compounded annually (net after investment and administrative 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 4.0%, the 8.00% investment return rate translates to an assumed real rate of 4.0%. This rate of assumption was first used for the June 30, 2002 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, 2002 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, 2002 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, 2003 Valuation*

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry age
Amortization Method	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
Mortality Table	1983 Group Annuity Mortality Table

**Summary of Actuarial Methods and Assumptions
June 30, 2003 Valuation**

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

Sample Attained Ages	Present Value of		Present Value of		Future Life	
	\$1.00 Monthly for Life		\$1.00 Monthly for Life		Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$ 142.98	\$ 147.82	\$ 142.98	\$ 147.82	38.46	38.46
45	138.18	144.67	138.18	144.67	33.74	33.74
50	132.10	140.42	132.10	140.42	29.18	29.18
55	124.57	134.74	124.57	134.74	24.82	24.82
60	115.04	127.24	115.04	127.24	20.64	20.64
65	103.26	117.61	103.26	117.61	16.69	16.69
70	90.18	105.53	90.18	105.53	13.18	13.18
75	76.40	91.57	76.40	91.57	10.15	10.15
80	62.65	77.16	62.65	77.16	7.64	7.64
85	50.59	62.99	50.59	62.99	5.73	5.73

Sample Attained Ages	Benefit Increasing 3.0 % Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
		60	\$ 100.00
65	116.00	94	97
70	134.00	84	92
75	155.00	69	84
80	180.00	51	70

**Summary of Actuarial Methods and Assumptions
June 30, 2003 Valuation**

Separation from Active Employment Before Age and Service Retirement

Percent of Active Members Separating Within The Next Year							
Sample Ages	Years of Service	Withdrawal		Death		Disability	
		Men	Women	Men	Women	Men	Women
	0	40.0%	40.0%				
	1	25.0	25.0				
	2	20.0	20.0				
	3	15.0	15.0				
	4	12.0	12.0				
20	5+	13.8	13.8	0.03%	0.02%	0.07%	0.07%
25		12.7	12.7	0.04	0.02	0.07	0.07
30		8.1	8.1	0.05	0.02	0.07	0.07
35		4.6	4.6	0.07	0.04	0.07	0.07
40		4.0	4.0	0.10	0.06	0.18	0.18
45		3.7	3.7	0.18	0.08	0.23	0.23
50		1.7	1.7	0.31	0.13	0.44	0.44
55		1.2	1.2	0.49	0.20	0.80	0.80
60		1.2	1.2	0.74	0.34	1.27	1.27

Pay Increase Assumptions for an Individual Member

Age	Merit & Seniority	Base (Economy)	Increase Next Year
20	5.80%	4.00%	9.80%
25	4.60	4.00	8.60
30	3.20	4.00	7.20
35	2.50	4.00	6.50
40	2.10	4.00	6.10
45	1.80	4.00	5.80
50	1.30	4.00	5.30
55	1.00	4.00	5.00
60	0.70	4.00	4.70

These rates were first used in the June 30, 2003 valuation.

**Summary of Actuarial Methods and Assumptions
June 30, 2003 Valuation**

**Probabilities of Retirement for Members Eligible to Retire
Percent of Eligible Active Members Retiring Within Next Year**

State and Local Government Division

General Assembly

<u>Age-Based Retirement</u>			<u>Service-Based Retirement</u>			<u>Age-Based Retirement</u>	
Retirement Ages (for members with less than 28 yrs. Service)	Percentages		DROP (Service in Years)			Retirement Ages	Percentages
	Unreduced	Reduced	Years	Percentages	DROP		
55		2%	28	20%	35%	50-60	30%
56		2	29	15	20	61	50
57		3	30-35	15	15	62	30
58		3	36	20		63	30
59		4	37	30		64	50
60		5	38	100		65	30
61		7				66	20
62		23				67-79	20
63		19				80	100
64		16					
65	35%						
66	25						
67	20						
68-72	15						
73	20						
74-77	25						
78	30						
79	40						
80-82	50						
83	60						
84	90						
85	100						

For the state and local government division (retirement percentages shown in the first four columns from the left), a member was assumed eligible for unreduced retirement after attaining age 65 with 5 years of service, or 28 years regardless of age (both unreduced retirement and DROP). A member was assumed eligible for reduced retirement after attaining age 55 with 5 or more years of service. These rates were first used in the June 30, 2003 valuation.

For the General Assembly Division (percentages shown in the two columns to the far right), a member may retire with 28 or more years of service or at age 55 with 10 or more years of General Assembly service.

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

STATE AGENCIES

Valuation Date June 30	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				+3.3%	+2.5

LOCAL GOVERNMENT EMPLOYERS

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

Valuation Date June 30	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				+3.7%	+1.9

STATE AND LOCAL GOVERNMENT EMPLOYERS DIVISION

Valuation Date June 30	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
2003	42,825	1,147,269,521	26,790	+1.7%	+2.1

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
Comparative Statements*

GENERAL ASSEMBLY SUBDIVISION

Valuation Date June 30	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	Change	
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
2003	54	675,000	12,500	+0.0	+2.1
		Average (1993-2003)		+0.0	+2.5

N/A *Data not available for this fiscal year.*
After legislated changes in benefit provisions.
@ *After changes in financial assumptions.*

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

Short Condition Test

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 Active 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.

Valn Date: June 30	Entry Age Accrued Liability			Active Members (Employer Fin. Portion) Valuation Assets (\$ in Millions)	Portion of Present Values Covered By Present Assets			
	(1) Active Member Contr.	(2) Retirees and Benef.	(3)		(1)	(2)	(3)	Total
<i>STATE AGENCIES DIVISION (including subdivisions)</i>								
1998@	\$ 17.2	\$ 640.3	\$ 1,395.9	\$ 2,328.5	100%	100%	119%	113%
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
<i>LOCAL GOVERNMENT EMPLOYERS DIVISION</i>								
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
<i>STATE AGENCIES AND LOCAL GOVERNMENT EMPLOYERS</i>								
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
2003	20.5	1,624.7	3,014.1	4,408.3	100	100	92	95
2003@	20.5	1,624.7	3,004.7	4,408.3	100	100	92	95

@ After changes in financial assumptions.

After legislated changes in benefit provisions

Analysis of Financial Experience
Year Ended June 30, 2003

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.

	<u>\$ in Millions</u>		
	<u>State and Local Government Division</u>	<u>General Assembly</u>	<u>Total</u>
(1) UAAL* at beginning of year	\$ 23.1	\$ 17.2	\$ 40.3
(2) Normal cost from last valuation	115.5	0.2	115.7
(3) Actual employer contributions	113.2	0.1	113.3
(4) Interest accrual: $[(1) + 1/2[(2) - (3)]] \times .080$	1.9	1.4	3.3
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	27.3	18.7	46.0
(6) Increase from benefit changes	0.0	0.0	0.0
(7) Changes from revised actuarial assumptions and methods	(9.4)	0.0	(9.4)
(8) New entrant liabilities	23.4	0.0	23.4
(9) Expected UAAL after changes: (5) + (6) + (7) + (8)	41.3	18.7	60.0
(10) Actual UAAL at end of year	<u>241.6</u>	<u>16.3</u>	<u>257.9</u>
(11) Gain (loss): (9) - (10)	<u>\$ (200.3)</u>	<u>\$ 2.4</u>	<u>\$ (197.9)</u>

* *Unfunded actuarial accrued liability*

**Analysis of Financial Experience
Gains and Losses By Risk Area
Year Ended June 30, 2003**

Type of Risk Area	Gain/(Loss) in Period - (\$ in Millions)			% of Accrued Liabilities
	State and Local Gov. Division	General Assembly	Total	
ECONOMIC RISK AREAS				
<u>Pay Increases</u>				
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 36.0	\$ 0.0	\$ 36.0	0.8%
<u>Investment Return</u>				
If there is greater investment return than assumed, there is a gain. If less return, a loss.	(292.6)	0.0	(292.6)	(6.3)%
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.	11.2	0.0	11.2	0.2%
<u>Disability Retirements</u>				
If there are fewer disabilities than assumed, there is a gain. If more, a loss.	3.3	0.0	3.3	0.1%
<u>Death-in-Service Benefits</u>				
If there are fewer claims than assumed, there is a gain. If more, a loss.	(0.1)	0.0	(0.1)	0.0%
<u>Withdrawal</u>				
If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	<u>15.2</u>	<u>0.0</u>	<u>15.2</u>	<u>0.3%</u>
Total Actuarial Gains (Losses)	\$ (227.0)	\$ 0.0	\$ (227.0)	(4.9)%
<u>Other</u>				
Includes data adjustments at retirement, timing of financial transactions, retired life mortality, and miscellaneous unidentified sources.	<u>\$ 26.7</u>	<u>\$ 2.4</u>	<u>\$ 29.1</u>	<u>0.6%</u>
Total Actuarial Gains (Losses)	<u>\$ (200.3)</u>	<u>\$ 2.4</u>	<u>\$ (197.9)</u>	<u>(4.3)%</u>

Summary of Plan Provisions
June 30, 2003

Contributory

A member may retire with a 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.

Non-Contributory

Voluntary Retirement

A member may retire at age 65 with a full benefit 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 may retire with a reduced benefit if he or she has reached age 55 with 5 years of service or any age with 25 years of service. The reduction is equal to either 1/2 of 1% or 1% for each month retirement precedes normal retirement age.

A member may retire with a reduced benefit if he or she has reached age 55 with 5 years of service or any age with 25 years of service. The reduction is equal to either 1/2 of 1% or 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 5 years of actual service. A death benefit is payable to the surviving spouse of a member who dies before benefit commencement.

A member leaving APERS covered employment before full retirement age is considered vested with 5 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, equal to the 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.

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, equal to the 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.

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.

A member's final average compensation is the average of the highest 36 calendar months of covered compensation.

***Summary of Plan Provisions
June 30, 2003***

Contributory

Non-Contributory

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).

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 prior to age 62, an additional .33% of FAC times years of service will be paid until 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.

Annually, there will be a cost of living adjustment equal to 3% of the current benefit.

Death After Retirement

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 die 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.

Member contributions before 1978 are protected in the same manner as under the contributory plan. Should a member elect a straight life benefit and die 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.

Death While In PERS-Covered Employment

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.

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

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).

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.

***Summary of Plan Provisions
June 30, 2003***

Contributory

Non-Contributory

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.

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.

**Partial Annuity Withdrawal
(PAW)**

Members who have worked past the date they became eligible for an unreduced benefit, can participate in the Partial Annuity Withdrawal (PAW). To be eligible to participate, the member must be eligible for an unreduced benefit and not be participating in the Deferred Retirement Option Plan (DROP). Members may take a lump sum distribution of their retirement benefits for each month they work beyond the date of first eligibility for an unreduced benefit - up to a maximum of 60 months. The member's lifetime annuity is then reduced by an actuarial factor tied to the age of the retiree. The election to participate in the PAW is made at retirement.

Members who have worked past the date they became eligible for an unreduced benefit, can participate in the Partial Annuity Withdrawal (PAW). To be eligible to participate, the member must be eligible for an unreduced benefit and not be participating in the Deferred Retirement Option Plan (DROP). Members may take a lump sum distribution of their retirement benefits for each month they work beyond the date of first eligibility for an unreduced benefit - up to a maximum of 60 months. The member's lifetime annuity is then reduced by an actuarial factor tied to the age of the retiree. The election to participate in the PAW is made at retirement.



V

Statistical Section

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 1998-2003*

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Transfers And Other	Total
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)
2003	159,642	115,690,798	191,929,218	8,874,658	316,654,316

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

*Schedule of Expenses By Type
For the Fiscal Years 1998-2003*

Year Ending June 30	Benefit Payments	Administrative Expenses	Refunds	Misc.	Total
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
2003	169,763,198	4,370,719	678,143	-	174,812,060

*Schedule of Benefit Expenses by Type
For the Fiscal Years 1998-2003*

Year Ending June 30	<u>Age & Service</u>		Death in <u>Service</u>	<u>Disability</u>		
	<u>Retirees</u>	<u>Survivors</u>		<u>Retirees</u>	<u>Survivors</u>	<u>Refunds</u>
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
2003	\$ 142,976,196	\$ 4,018,200	\$ 3,866,724	\$ 8,308,800	\$ 857,136	\$ 678,143

**Schedule of Retired Members by Type of Annuities Being Paid
As of June 30, 2003**

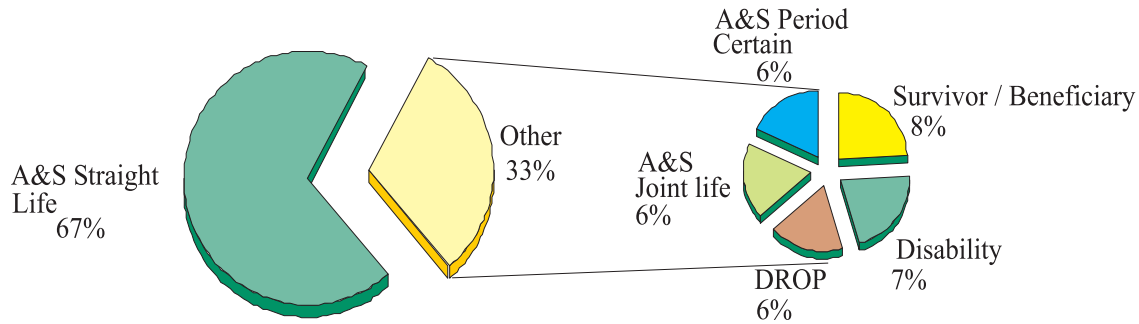
Type of Annuity	Number	Annual Annuities
Age & Service Retirees		
Life	12,676	\$ 118,689,864
Option A- 60 (5 years certain)	353	3,170,820
Option A-120 (10 years certain)	835	7,157,856
Option B- 50 (joint and 50% survivor)	485	6,468,060
Option B- 75 (joint and 75% survivor)	581	6,204,192
Option B-100 (joint and 100% survivor)	<u>92</u>	<u>1,285,404</u>
Totals	15,022	142,976,196
Beneficiaries of Age & Service Retirees		
Life	79	431,052
Option A- 60	13	104,412
Option A-120	84	598,200
Option B- 50	172	1,003,620
Option B- 75	177	1,329,012
Option B-100	<u>34</u>	<u>551,904</u>
Totals	<u>559</u>	<u>4,018,200</u>
Total Age & Service Retirees & Beneficiaries	15,581	146,994,396
Disability Retirees		
Life	1,018	6,576,588
Option A- 60	52	289,632
Option A-120	103	672,264
Option B- 50	52	375,120
Option B- 75	64	395,196
Option B-100	<u>0</u>	<u>0</u>
Totals	1,289	8,308,800
Beneficiaries of Disability Retirees		
Life	19	125,100
Option A- 60	9	27,504
Option A-120	33	208,824
Option B- 50	19	72,024
Option B- 75	77	412,164
Option B-100	<u>1</u>	<u>11,520</u>
Totals	158	857,136
Total Disability Retirees & Beneficiaries	1,447	9,165,936
Death-in-Service Beneficiaries	<u>717</u>	<u>3,866,724</u>
Total Retirees & Beneficiaries	17,745	160,027,056
DROP Participants	<u>1,093</u>	<u>26,015,176</u>
GRAND TOTAL	<u>18,838</u>	<u>\$ 186,042,232</u>

**Schedule of Average Benefit Payments
As of June 30, 2003**

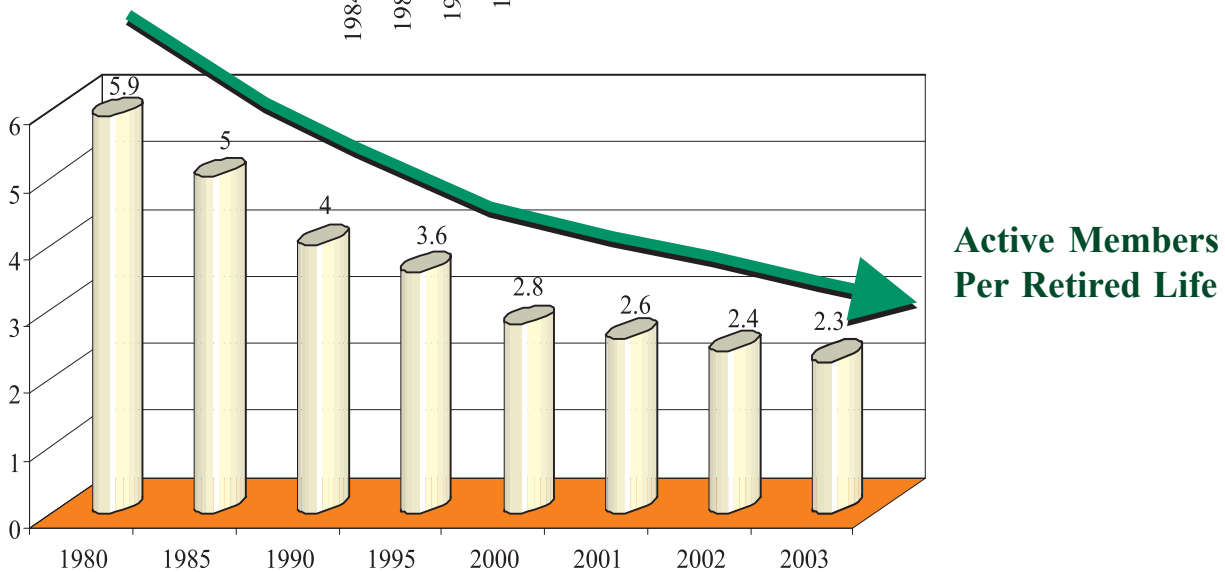
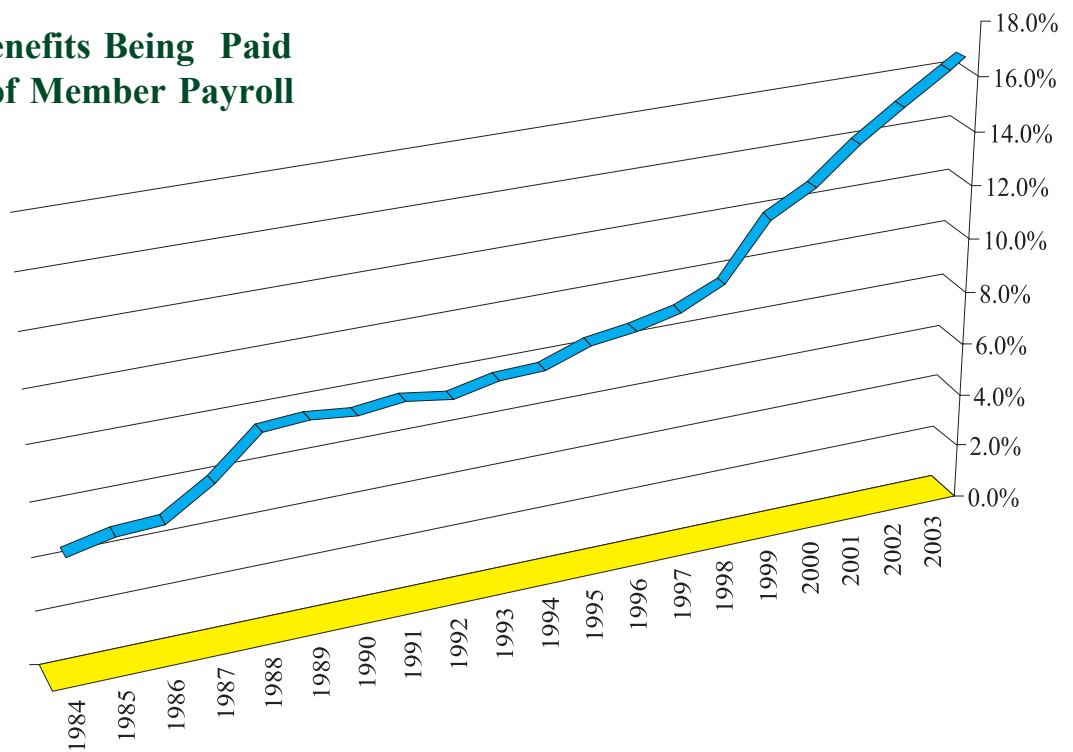
	Years of Credited Service				
	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>
Retirement Effective Dates					
<u>July 1, 2002 to June 30, 2003</u>					
Avg. Monthly Benefit	\$ 316.29	\$ 508.33	\$ 780.66	\$ 1,406.41	\$ 1,826.47
Avg. Monthly Final Average Salary	1,717.08	1,914.11	2,274.76	2,898.91	3,054.00
Number of Active Retirants	221	199	186	209	91
Retirement Effective Dates					
<u>July 1, 2001 to June 30, 2002</u>					
Avg. Monthly Benefit	341.75	510.12	729.34	1,393.97	1,757.72
Avg. Monthly Final Average Salary	1,787.05	1,911.35	2,104.74	2,619.53	2,900.49
Number of Active Retirants	239	186	184	236	79
Retirement Effective Dates					
<u>July 1, 2000 to June 30, 2001</u>					
Avg. Monthly Benefit	345.42	501.84	893.20	1,497.96	1,744.76
Avg. Monthly Final Average Salary	1,616.90	1,736.62	2,171.48	2,720.54	2,748.18
Number of Active Retirants	247	196	195	188	98
Retirement Effective Dates					
<u>July 1, 1999 to June 30, 2000</u>					
Avg. Monthly Benefit	312.72	524.61	799.44	1,664.52	2,031.73
Avg. Monthly Final Average Salary	1,520.62	1,823.55	2,120.10	2,809.24	3,085.97
Number of Active Retirants	206	182	151	241	151
Retirement Effective Dates					
<u>July 1, 1998 to June 30, 1999</u>					
Avg. Monthly Benefit	383.36	580.03	784.98	1,202.08	2,001.64
Avg. Monthly Final Average Salary	1,499.23	1,729.33	1,915.78	2,100.51	2,716.42
Number of Active Retirants	371	236	202	111	222
Retirement Effective Dates					
<u>July 1, 1997 to June 30, 1998</u>					
Avg. Monthly Benefit	345.44	527.29	798.32	1,461.03	1,914.53
Avg. Monthly Final Average Salary	1,616.37	1,818.62	2,114.31	2,686.01	2,878.94
Number of Active Retirants	1,284	999	918	985	641

Statistical Charts
As of June 30, 2003

Annuities Being Paid By Type



Retirement Benefits Being Paid As a Percent of Member Payroll



Schedule of Participating Employers

State Agencies

- | | |
|--|---|
| Abstractor’s Board of Examiners | Board of Dispensing Opticians |
| Administrative Office of The Courts | Board of Embalmers and Funeral Directors |
| Administrative Office of the Courts-Director | Board of Examiners in Counseling |
| Arkansas Crime Information Center | Board of Nursing |
| Arkansas Economic Development Commission | Board of Pharmacy |
| Arkansas Public Defender Commission | Board of Physical Therapy |
| Arkansas Tobacco Settlement Commission | Board of Registry for Professional Geologists |
| Arkansas Fair Housing Commission | Board of Registry for Progress Engineers |
| Arkansas Dept. of Environmental Quality | Boone County Conservation District |
| Arkansas Appraisers Licensing/Certification. | Buffalo Conservation District |
| Arkansas County Conservation District | Building Authority |
| Arkansas Ethics Commission | Burial Association Board |
| Arkansas Heritage | Calhoun County Conservation District |
| Arkansas Minority Health Commission | Capitol Zoning District Commission |
| Arkansas Northeastern College | Carroll County Conservation District |
| Arkansas Sentencing Commission | Chicot County Conservation District |
| Arkansas State Board of Massage Therapy | Claims Commission |
| Arkansas State Board of Optometry | Clark County Conservation District |
| Arkansas State Capitol Police | Clay County Conservation District |
| Arkansas State Library | Cleburne County Conservation District |
| Arkansas State University | Code Revision Commission |
| Arkansas State University - Beebe | Columbia County Conservation District |
| Arkansas State University-Mountain Home | Constitutional Officers |
| Arkansas Tech University | Contractors Licensing Board |
| Arkansas Tobacco Control Board | Conway County Conservation District |
| Arkansas Towing & Recovery Board | Cossatot Community College - University of Arkansas |
| Arkansas Transitional Employment Board | Cossatot Conservation District |
| Ashley County Conservation District | Court of Appeals |
| Assessment Coordination Department | Court Reporters |
| Arkansas State University-Newport | Craighead County Conservation District |
| Attorney General | Crawford County Conservation District |
| Auctioneers Licensing Board | Crittenden County Conservation District |
| Auditor of State | Crooked Creek Conservation District |
| Baxter County Conservation District | Cross County Conservation District |
| Board of Examiners in Speech, Language & Pathology | Crowley’s Ridge Technical Institute |
| Benton County Conservation District | Dallas County Conservation District |
| Board of Accountancy | Department of Aeronautics |
| Board of Architects | Department of Community Correction |
| Board of Barber Examiners | Department of Corrections |
| Board of Chiropractic Examiners | Department of Emergency Management |
| Board of Collection Agencies | Department of Finance & Administration |
| Board of Cosmetology | Department of Health |
| Board of Dental Examiners | Department of Higher Education |

(Continued)

State Agencies (Continued)

Department of Human Services
Department of Information Systems
Department of Labor
Deputy Prosecuting Attorney
Desha County Conservation District
Development Finance Authority
Dietetic Licensing Board
Disability Determination for Social Security Admin.
Disabled Veterans Service
Division of Legislative Audit
Drug Task Force - 1st & 3rd Judicial Districts
Drug Task Force - 5th Judicial District
Drug Task Force - 8th Judicial District
Drug Task Force - 13th Judicial District
Drug Task Force - 14th Judicial District
Drug Task Force - 15th Judicial District
Drug Task Force – 18th W. Judicial District
Drug Task Force - Batesville
Drug Task Force - Monticello
East Arkansas Community College
Educational Television Commission
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
General Assembly - House
General Assembly - Senate
Geological Commission
Governor’s Office
Grant County Conservation District
Greene County Conservation District
Hempstead County Soil Conservation
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 Conservation District
Monroe County Conservation District
Motor Vehicle Commission
National Park Community College
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
Phillips Community College - University of Arkansas
Phillips County Conservation District
Pike County Conservation District
Poinsett County Conservation District
Pope County Conservation District
Post Prison Transfer Board
Poteau River Conservation District
Prairie County Conservation District
Professional Bail Bondsman Licensing Board

(Continued)

State Agencies (Continued)

Prosecuting Attorney
 Prosecutor Coordinator
 Public Employees Retirement System
 Public Service Commission
 Pulaski County Conservation District
 Pulaski Technical College
 Quapaw Technical Institute
 Randolph County Conservation District
 Real Estate Commission
 Rich Mountain Community College
 Rich Mountain Conservation District
 Saline County Conservation District
 School for the Blind
 School for the Deaf
 Science & Technology Authority
 Sebastian County Conservation District
 Secretary of State
 Securities Department
 Senate Clerk
 Sharp County Conservation District
 Social Work Licensing Board
 Soil & Water Conservation
 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 Crime Lab
 State Land Commission
 State Military Department
 State Plant Board
 State Police (Non-Troopers)
 State Treasurer
 Stone County Conservation District
 Student Loan Authority
 Supreme Court
 Title Insurance Agents Licensing Board
 Trial Court Administrative Assistants
 University of Arkansas Community College at Hope
 University of Arkansas Community College at Morrilton
 Union County Conservation District
 University of Arkansas Community College at Batesville

University of Arkansas - Fayetteville
 University of Arkansas - Little Rock
 University of Arkansas - Medical Sciences
 University of Arkansas at Monticello
 University of Arkansas-Fort Smith
 University of Central Arkansas
 Van Buren County Conservation District
 Veterans Affairs Department
 Veterans Child Welfare
 Veterinary Medical Examining Board
 Vocational/Technical Education/ Division of Rehabilitation
 War Memorial Stadium
 Washington County Conservation District
 Waterways Commission
 White County Conservation District
 Woodruff County Conservation District
 Worker's Compensation Commission
 Yell County Conservation District

County Employers

Arkansas River Valley Regional Library
 Arkansas
 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 County Drainage District
 Cross
 Dallas

(Continued)

County Employers (Continued)

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
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
Augusta
Batesville Water Works
Beebe
Bentonville
Biscoe
Bono
Bradford Water & Sewer System
Brinkley
Brinkley Municipal Water & Sewer Service
Bryant
Cabot
Caddo Valley
Calico Rock
Camden Water & Utilities
Cammack Village
Carlisle
Cave City

(Continued)

Municipal Employers (Continued)

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

(Continued)

Municipal Employers (Continued)

Paris
Perryville
Piggott
Piggott Light & Water System
Plumerville
Prairie Grove
Prescott
Quitman
Ravenden
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 Water Utilities
Yellville

School Employers

Acorn
Alma
Alpena
Alzheimer 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
Cabot
Caddo Hills
Calico Rock
Carlisle
Carthage
Cedarville
Centerpoint
Clarendon
Clarksville
Clinton
Concord

(Continued)

School Employers (Continued)

Conway	Fountain Lake
Cord-Charlotte	Fourche Valley
Corning	Genoa Central
Cotter	Gentry
Cotton Plant	Gillett
County Line	Glen Rose
Crawfordsville	Gosnell
Cross County	Gould
Crossett	Grady
Cushman	Gravette
Cutter Morning Star	Green Forest
Danville	Greenbrier
Dardanelle	Greene County Tech
Decatur	Greenwood
Deer	Gurdon
Delta Special	Hamburg
DeQueen	Harmony Grove
Dermott Special	Harrisburg
Des Arc	Harrison
DeValls Bluff	Hartford
DeWitt	Hazen
Dollarway	Heber Springs
Dover	Hector
Drew Central	Helena-West Helena
Dumas	Hermitage
Earle	Highland
East End	Holly Grove
East Poinsett County	Hope
El Dorado	Horatio
Elaine	Hot Springs
Emerson	Hoxie
England	Huntsville
Eudora	Huttig
Eureka Springs	Izard County Consolidated
Fairview	Jackson County Schools
Farmington	Jasper
Fayetteville	Jessieville
Flippin	Jonesboro
Fordyce	Junction City
Foreman	Kingston
Forrest City	Lafayette County
Fort Smith	Lake Hamilton
Fouke	Lakeside

(Continued)

School Employers (Continued)

Lakeview	Norphlet
Lamar	North Little Rock
Lavaca	Oark
Lead Hill	Omaha
Lee County	Osceola
Lewisville	Ozark
Lincoln Consolidated	Palestine-Wheatley
Little Rock	Paragould
Lonoke	Paris
Magazine	Parkers Chapel
Magnet Cove	Parkin
Magnolia	Paron
Malvern	Pea Ridge
Manila	Piggott
Mansfield	Pine Bluff
Marion	Plainview Rover
Marion County Rural	Pleasant View
Marked Tree	Pocahontas
Marmaduke	Pottsville
Marshall	Prescott
Marvell	Pulaski County Special
Maynard	Quitman
McCrary	Randolph
McNeil	Rector School District
McRae	River Valley
Melbourne	Riverside
Mena	Riverview
Midland	Rogers
Monticello	Rural Special
Mount Vernon-Enola	Russellville
Mountain Home	Salem Consolidated
Mountain Pine	Saratoga
Mountain View	Scotland
Mountainburg	Scranton
Mt. Holly	Searcy
Mt. Pleasant	Sheridan
Murfreesboro	Shirley
Nashville	Siloam Springs
Nettleton	Sloan-Hendrix
Nevada	Smackover
Newark	South Central Service Cooperative
Newport Special	South Conway County
Norfolk	South Mississippi County

(Continued)

School Employers (Continued)

South Side
 Sparkman
 Springdale
 St. Paul
 Stamps Special
 Star City
 Stone County
 Strong
 Stuttgart
 Sulphur Rock
 Taylor
 Texarkana
 Trumann
 Turrell
 Umpire
 Union
 Valley Springs
 Valley View
 Van Buren
 Van Cove
 Vilonia
 Viola
 Waldron
 Walker
 Walnut Ridge
 Warren
 Watson Chapel
 Weiner
 West Memphis
 West Memphis Cafeteria
 West Side
 Western Yell County
 Westfork
 Westside
 Westside Consolidated
 White County Central
 White Hall
 Wickes
 Williford
 Witts Springs
 Wonderview
 Woodlawn
 Wynne

Yellville Summit

Other Non-State Employers

Blytheville – Gosnell Regional Airport
 Boone County Airport
 Clark County Country Water Facilities
 Hot Spring County Solid Waste Authority
 Kimzey Regional Water District
 Marion County Regional Airport
 Nevada County Prescott Solid Waste Management
 North Garland County Regional Water District
 Pulaski County Regional Solid Waste Management District
 Rehab, Industry & Business
 Riversouth Rural Water District
 Saline County Regional Waste Management District
 South Sebastian County Water User Association
 Southwest Boone County Water Association
 Tri-County Solid Waste
 Upper SW Arkansas Solid Waste Management District
 Washington Water Authority

**Number of Participating Employers
 As of June 30, 2003**

State Agencies	241
County Agencies	85
Municipal Agencies	152
School Employers	260
Other Non-State Agencies	17

*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*
