

# Arkansas

Public Employees Retirement System



**Annual Financial Report**

**2005**

# Arkansas

## Public Employees Retirement System

---

*A Pension Trust Fund of the State of Arkansas*

---

*Comprehensive*

# Annual Financial Report

*For the Year Ended June 30, 2005*

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

Prepared by

Arkansas Public Employees Retirement System  
124 West Capitol Avenue, Suite 400  
Little Rock, AR 72201



Public Pension Coordinating Council  
*Public Pension Standards*  
**2005 Award**

*Presented to*

*Arkansas Public Employees Retirement System*

*In recognition of meeting professional standards for  
plan design and administration as  
set forth in the Public Pension Standards.*

**Presented by the Public Pension Coordinating Council, a confederation of**

*National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)*

Alan H. Winkle  
Program Administrator

# Table of Contents

	<b>Page</b>
<b><i>Introductory Section</i></b>	
Recent Legislation	7
Letter of Transmittal	8
Letter from the Board Chair	11
A Brief History of APERS and Membership Information	12
Board of Trustees	13
Organizational Chart and Administrative Staff	14
Professional Consultants and Investment Managers	15
<b><i>Financial Section</i></b>	
Legislative Auditors' Report	19
<u>Financial Statements:</u>	
Statement of Plan Net Assets	20
Statement of Changes in Plan Net Assets	21
<u>Notes to Financial Statements</u>	
Description of the System	22
Summary of Significant Accounting Practices	24
Cash and Cash Equivalents	24
Investments	24
Legally Required Reserves	30
<u>Required Supplementary Information:</u>	
Schedule of Employer Contributions	32
Schedule of Funding Progress	32
Note to Required Supplementary Information	33
<u>Supporting Schedules:</u>	
Schedule of Investment Expense	33
Schedule of Payments for Professional Consultants	33
Schedule of Administrative Expense	34
<b><i>Investment Section</i></b>	
Report on Investments	37
Outline of Investment Policies	39
Actual vs. Target Asset Allocation	40
Manager Distribution	41
<u>Performance Comparisons:</u>	
Fiscal Years 2001 through 2005	42
Current Year and Preceding 3 - Year & 5 - Year Rates of Return	42

# Table of Contents

	<b>Page</b>
<b><i>Investment Section (Continued)</i></b>	
Portfolio Characteristics	43
List of Ten Largest Assets Held	44
Schedule of Brokerage Commissions	45
Schedule of Investment Fees	46
Comparative Schedule of Investments	47
<b><i>Actuarial Section</i></b>	
Actuary's Certification Letter	51
Summary of Assumptions Used in Actuarial Valuations	53
Summary of Actuarial Methods and Assumptions	54
Active Member Valuation Data - Comparative Statements	57
Short Condition Test	59
Analysis of Financial Experience	60
Analysis of Financial Experience - Gains and Losses by Risk Area	61
Summary of Plan Provisions (Contributory and Non-Contributory)	62
<b><i>Statistical Section</i></b>	
Schedule of Revenues by Source	67
Schedule of Expenses by Type	67
Schedule of Benefit Expenses by Type	67
Schedule of Retired Members by Type of Benefit	68
Schedule of Average Benefit Payments	69
Statistical Graphs	70
<b><i>Appendix</i></b>	
Schedule of Participating Employers	73

# Introduction

## INTRODUCTION

Recent Legislation

Letter of Transmittal

Letter from the Board Chair

A Brief History of APERS

Membership Information

Board of Trustees

Organizational Chart and Administrative Staff

Professional Consultants and Investment  
Managers



*This Page Intentionally Left Blank*

## Recent Legislation

### Enacted by the 85th General Assembly in 2005

**Act 383 (SB 19)**, sponsored by Sen. Steve Faris (D-Malvern) and Rep. Scott Sullivan (D-DeQueen) provides for the restoration of the original unreduced annuity for the member who had elected either the B50 or B75 annuity option when the named beneficiary predeceases the retirant. This Act became effective on July 1, 2005.

**Act 652 (HB 1100)**, sponsored by Rep. Sullivan (D-DeQueen) allows elected public officials who are members of APERS and who are elected to public office in another form of government to retire and receive benefits without a break in service. This Act became effective on March 9, 2005.

**Act 1021 (SB 20)**, sponsored by Sen. Faris (D-Malvern) and Rep. Sullivan (D-DeQueen) allows vested members to purchase up to five (5) years of out-of-state governmental service provided that such service does not entitle such members to a vested deferred benefit in another retirement system. This Act became effective on July 1, 2005.

A calculation is made for each individual purchasing service, taking into account their age, service before purchase, service after purchase, and compensation.

**Act 1027 (SB 127)**, sponsored by Sen. Ed Wilkinson (D-Greenwood) and others, allows vested members of APERS to purchase service credit for one (1) year of purchased service credit for every five (5) years of compensated service in the Arkansas National Guard or the Armed Forces Reserve. Act 1027 became effective August 12, 2005.

Service credit in the System for active duty military service and for service in the National Guard or Armed Forces Reserve shall not be given for the same period of time.

**Act 1450 (SB 15)**, sponsored by Sen. Faris (D-Malvern), Sen. Jimmy Jeffress (D-Crossett), and Rep. Sullivan (D-DeQueen) provides for an increase in the non-contributory multiplier to 1.75% for all credited non-contributory service through June 30, 2005. The increase in the non-contributory multiplier will be included in the monthly benefit amount for all members who retire effective July 1, 2005, and after.

**Act 2091 (SB 145)**, sponsored by Sen. J. Jeffress (D-Crossett) provides for the recognition of federal service in APERS and ATRS in certain circumstances. The Board of Trustees will establish policies and promulgate rules to recognize the service credit for members earned in the retirement systems of federal government agencies. This Act became effective August 12, 2005.

#### The Contributory Program

**Act 2084 (SB 69)**, sponsored by Sen. J. Jeffress (D-Crossett) and Sen. Faris (D-Malvern) provides for a new contributory program for APERS members first hired on or after July 1, 2005 and those non-contributory members who elected to become contributory.

Members participating in the contributory program contribute 5% of their annual compensation, pre-tax (taxes are deferred).

Active APERS members employed before July 1, 2005, were given until Dec. 31, 2005, to elect coverage under the contributory program, or to remain in the non-contributory program.





# Arkansas Public Employees Retirement System

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

December 16, 2005

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 2005 Annual Financial Report of the Arkansas Public Employees Retirement System (“APERS” or the “System”) for the fiscal year ended June 30, 2005. 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 six 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; an Appendix, which lists all Participating Employers as of June 30, 2005. 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 3.56%. 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**

The fund recognized a 9.85% rate of return. A shift in investment asset allocation favoring international equities in February helped boost profits in the remaining four months of the fiscal year. Nonetheless, assets have declined to a still-healthy 82% of liabilities, down from 89% in 2004. If APERS enjoys stronger returns over the next two years, funding will move above 90% once again. The new employee contributory provisions as enumerated by Act 2084 will permit the funded status of the system to remain strong.

## 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 2005 totaled approximately \$545.9 million (see Table 1).

The overall additions decreased approximately \$(66.3) million compared to those of fiscal year 2004 due primarily to lower investment earnings and higher employers' contributions. The Investment Section of this report reviews activity and the results of the investment portfolio for fiscal year 2005. The net assets of the System were \$4.6 billion on June 30, 2005, an increase of approximately \$333.9 million from 2004.

TABLE 1.

### OPERATING ADDITIONS

Employer contributions	\$135,027,446
Employee contributions	82,836
Investment earnings	401,429,532
Miscellaneous additions	<u>9,354,055</u>
<b>TOTAL</b>	<b><u>\$545,893,869</u></b>

### 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 2005 totaled approximately \$212.0 million (see Table 2), an increase of approximately 12.7% over fiscal year 2004 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 \$333.9 million during fiscal year 2005.

TABLE 2. OPERATING DEDUCTIONS

Benefit payments	\$207,122,449
Refunds of contributions	526,398
Administrative expenses	<u>4,313,081</u>
<b>TOTAL</b>	<b><u>\$211,961,928</u></b>

### 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, 2005, amounted to \$1.04 billion and \$4.6 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 2005, investments provided a 9.85% rate of return. The System's annualized rate of return over the last three years was approximately 9.55%.

## **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.

## **ACKNOWLEDGEMENTS**

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,



Gail H. Stone  
Executive Director



## Arkansas Public Employees Retirement System

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

January 1, 2006

Dear Members:

On behalf of the Board of Trustees, I am pleased to present the *APERS Annual Financial Report* for the fiscal year ending June 30, 2005. The Arkansas Public Employees Retirement System continues to be of sound financial condition. The assets accumulated to pay your retirement benefits are carefully invested to 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 Arkansas public.

The accommodative monetary stance of the Federal Reserve Bank that characterized fiscal 2004 reversed course in FY2005. Coupled with a yawning federal deficit and record-high oil prices, it proved to be a challenging year for the investment markets where volatility was the word of the day. Nevertheless, APERS enjoyed sound results for the year, returning 9.85%. This exceeded both the custom benchmark return of 9.22% and the actuarial return hurdle of 8.00%

Fiscal 2005 was also a year of change for our investment manager lineup as the Board worked hard to rationalize the manager structure so as to best capture sometimes fleeting investment opportunities as they occur around the world. Our adoption of multi-capitalization strategies across the APERS equity allocation was a significant factor in our good returns. We commend our professional investment advisors for their steady performance in this rapidly changing market environment.

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

Sincerely,

Larry Fratesi, Chair  
APERS Board of Trustees

## *A Brief History*

# *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.

Act 2084, enacted by the 2005 General Assembly, directed APERS to establish a new Contributory retirement provision that became effective July 1, 2005. All covered employees first hired on or after July 1, 2005, contribute 5% of their salary into the plan. Employees hired before June 30, 2005, who were in the Non-contributory system were given the option to join the new contributory system by Dec. 31, 2005. Non-contributory members who did not join the new Contributory program by that deadline remain Non-contributory members.

### **Membership Information** As of June 30, 2005

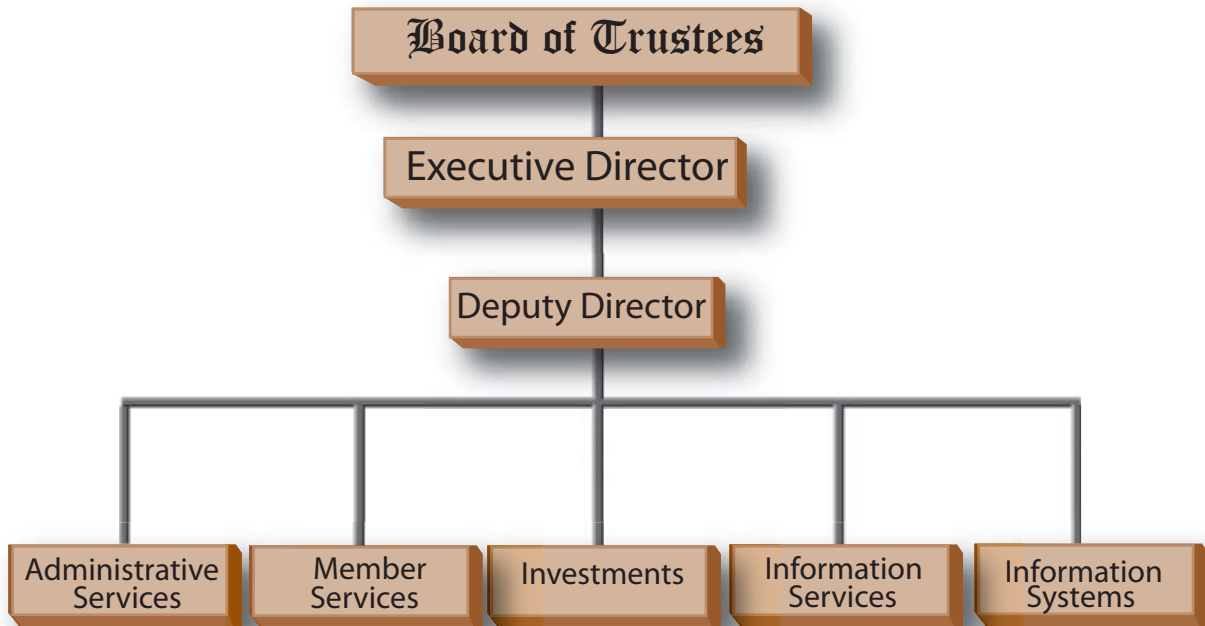
<b>ACTIVE MEMBERS</b>	
Number	42,938
Average Age	44.6 Years
Average Years	9.6 Years
Average Annual Salary	\$28,302
<b>INACTIVE VESTED MEMBERS</b>	
Number	10,250

<b>2005 RETIRED MEMBERS</b>		
	Age and Service	Disability
Retired Members	1,233	93
Average Age	61.6	53.2
Average Years of Service	17.8 Years	15.5 Years
Average Monthly Benefit	\$ 782	\$ 567
<b>TOTAL RETIREES</b>		
Retired Members	21,080	
Average Monthly Benefit	\$921	

## Board of Trustees

<b>Board Members</b>	<b>Expiration of Term</b>
<p><b>The Honorable Larry Fratesi, Chair</b>            Jefferson County Assessor            County Employee Representative</p>	March 9, 2009
<p><b>Mr. Jonathan R. Sweeney, Vice Chair</b>            Deputy Director, Soil and Water Conservation Commission            State Employee Representative</p>	March 9, 2007
<p><b>The Honorable Gus Wingfield</b>            State Treasurer</p>	Ex Officio Member
<p><b>The Honorable Jim Wood</b>            State Auditor</p>	Ex Officio Member
<p><b>Mr. Richard Weiss</b>            Director, Department of Finance and Administration</p>	Ex Officio Member
<p><b>Ms. Ouida Wright (Retired)</b>            Conway, AR            Retired Employee Representative</p>	March 9, 2011
<p><b>Mr. Don Zimmerman</b>            Executive Director, Arkansas Municipal League            Municipal Employee Representative</p>	March 9, 2010
<p><b>Mr. Maurice Henry</b>            Hope Public Schools            School Employee Representative</p>	March 9, 2006
<p><b>Mr. Artee Williams</b>            Executive Director, Employment Security Division            State Employee Representative</p>	March 9, 2009

## Organizational Chart



### Administrative Staff

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

## *Professional Consultants*

### *Custodial Bank*

#### **The Bank of New York**

One Wall Street  
New York, NY 10286

### *Actuary*

#### **Gabriel, Roeder, Smith & Company**

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

### *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

#### **BNY Asset Management**

32 Old Slip, 15th Floor  
New York, NY 10005

#### **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

#### **Westwood Management Corp.**

200 Crescent Court, Suite 1200  
Dallas, TX 75201

#### **Prudential Investments, Inc.**

Two Gateway Center  
Newark, NJ 07102

#### **Goldman Sachs Investment Management**

32 Old Slip, 32nd Floor  
New York, NY 10005

#### **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

#### **INTECH**

2401 P.G.A. Boulevard, Suite 100  
Palm Beach Gardens, FL 33410

#### **RiverSource Investments L.L.C.**

50189 Ameriprise Financial Center  
Minneapolis, MN 55474

#### **CastleArk Management L.L.C.**

One North Wacker Drive, Suite 3950  
Chicago, IL 60606



*This Page Intentionally Left Blank*

# Financial

## *Financial Section* FINANCIAL SECTION

Legislative Auditors' Report

Financial Statements

Statement of Plan Net Assets

Statement of Changes in Plan Net Assets

Notes to Financial Statements

Description of the System

Summary of Significant Accounting Practices

Cash and Cash Equivalents

Investments

Legally Required Reserves

Required Supplementary Information

Schedule of Employer Contributions

Schedule of Funding Progress

Note to Required Supplementary Information

Supporting Schedules

Schedule of Investment Expense

Schedule of Payments for Professional Consultants

Schedule of Administrative Expense



*This Page Intentionally Left Blank*

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
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, 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, 2005, as listed in the table of contents. These financial statements are the responsibility of agency management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the budgetary comparisons 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, 2005, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

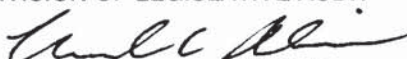
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary pension trust fund of the Arkansas Public Employees Retirement System as of June 30, 2005, and the changes in financial position thereof and the budgetary comparison for the fiduciary pension trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2005 on our consideration of the Arkansas Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 2004-2005 fiscal year supplementary information on pages 32 and 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

  
Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
December 19, 2005

<b>Statement of Plan Net Assets</b>
-------------------------------------

June 30, 2005 and 2004
------------------------

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
Cash and Cash Equivalents	\$ 219,020,715	\$ 175,809,182
Securities Lending Collateral Investments in Cash Equivalents (Notes 3 & 5)	243,612,095	215,840,817
<u>Receivables:</u>		
Contributions	1,792,097	1,522,786
Investment Principal Receivable	58,571,420	26,916,374
Accrued Investment Income Receivable	13,966,733	12,051,686
Total Receivables	<u>74,330,250</u>	<u>40,490,846</u>
<u>Investments, At Fair Value (Notes 3, 4 &amp; 5):</u>		
Government Securities:		
U.S. Government Securities	86,605,545	80,641,818
Government Agency Securities	352,704,738	315,412,784
Corporate Securities:		
Collateralized Obligations	106,052,354	0
Asset Backed Securities	0	36,099,669
Corporate Bonds	274,794,448	313,807,921
Corporate CMO	0	43,834,240
Convertible Bonds	132,266,649	137,058,613
Convertible Preferred Stock	43,012,269	36,059,855
Common Stock	1,559,574,683	1,223,768,276
Equity Index Funds	444,471,708	893,277,051
Equity Co-Mingled	202,400,000	0
High Yield Income Fund	37,565,408	38,703,011
International Securities:		
Government Fixed Obligations	29,233,376	14,363,917
Corporate Fixed Income	2,845,698	1,644,786
Equity Securities	435,197,990	382,353,841
Equity Pooled Fund Units	440,473,830	391,641,407
Emerging Markets	40,493,043	24,930,353
Real Estate	157,623,725	64,908,065
Timberland	157,314,473	157,301,764
Municipal Bonds	20,336,671	22,818,100
Total Investments	<u>4,522,966,608</u>	<u>4,178,625,471</u>
<u>Securities Lending Collateral Investments, At Fair Value (Notes 3 &amp; 5):</u>		
Corporate Bonds	214,978,659	263,472,042
Bank Obligations	74,980,224	59,998,003
Asset Backed Securities	117,931,027	10,000,000
Total Securities Lending Collateral Investments	<u>407,889,910</u>	<u>333,470,045</u>
Prepays and Other Assets	1,920,368	1,873,848
Fixed Assets, Net	53,101	50,499
<b>TOTAL ASSETS</b>	<u>5,469,793,047</u>	<u>4,946,160,708</u>
<b>LIABILITIES</b>		
Accrued Expenses and Other Liabilities	7,119,251	6,269,500
Investment Principal Payable	170,393,808	83,734,304
Securities Lending Liability	651,502,005	549,310,862
<b>TOTAL LIABILITIES</b>	<u>829,015,064</u>	<u>639,314,666</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Note 6)</b>	<u>\$ 4,640,777,983</u>	<u>\$ 4,306,846,042</u>

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

**Statement of Changes in Plan Net Assets**

For the Year Ending June 30, 2005 and 2004

<b>ADDITIONS</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<u>Contributions:</u>		
Employer	\$ 135,027,446	\$ 118,419,346
Plan Members	<u>82,836</u>	<u>117,955</u>
Total Contributions	135,110,282	118,537,301
<u>Investment Income:</u>		
Interest	54,121,820	71,972,312
Dividends	39,555,587	29,635,270
Net Appreciation in Fair Value of Plan Investment	323,251,610	390,465,636
Security Lending Income	16,405,504	8,911,120
Real Estate Income	(1,760,716)	3,133,752
Other	<u>0</u>	<u>16,184</u>
Total Investment Income	431,573,805	504,134,274
Less: Investment Expense	<u>30,144,273</u>	<u>19,974,768</u>
Net Investment Income	401,429,532	484,159,506
<u>Other Sources:</u>		
Miscellaneous Additions	2,598,877	3,101,053
Transfer from Teachers Retirement System	6,571,195	6,363,145
Miscellaneous Transfers from State Agencies	<u>183,983</u>	<u>57,848</u>
Total Other Additions	9,354,055	9,522,046
<b>TOTAL ADDITIONS</b>	<b>545,893,869</b>	<b>612,218,853</b>
<b>DEDUCTIONS</b>		
Benefits	207,122,449	182,901,681
Refunds of Contributions	526,398	374,972
Administrative Expenses	<u>4,313,081</u>	<u>4,759,527</u>
<b>TOTAL DEDUCTIONS</b>	<b>211,961,928</b>	<b>188,036,180</b>
<b>NET INCREASE</b>	<b>333,931,941</b>	<b>424,182,673</b>
Reserve Adjustments	0	(24)
<b>NET ASSETS (Note 6)</b>		
Beginning of Year	<u>4,306,846,042</u>	<u>3,882,663,393</u>
End of Year	<u><u>\$4,640,777,983</u></u>	<u><u>\$4,306,846,042</u></u>

See Notes to Financial Statements

# Notes To The Financial Statements

*For the Years Ending June 30, 2005 and 2004*

## 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 three other state retirement systems, the State Police Retirement System, the Arkansas Judicial Retirement System, and the Arkansas District Judge 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.

### Reporting Entities

As of June 30, 2005 and 2004, the number of participating employers was as follows:

	<u>2005</u>	<u>2004</u>
State	242	242
County	85	85
Municipal	200	155
School	213	248
Other Non-State	<u>20</u>	<u>18</u>
Total	<u>760</u>	<u>748</u>

As of June 30, 2005 and 2004, membership was as follows:

Retirees and beneficiaries receiving benefits	21,080	19,872
Terminated plan members entitled to but not receiving benefits	10,250	9,617
Active Plan Members	42,938	42,826

## Notes To The Financial Statements (Continued)

**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, 2005 and 2004, are as follows:

Employer Contribution Rates		
	<u>2005</u>	<u>2004</u>
State Division	11.09%	10.00%
Wildlife Subdivision	22.00%	22.00%
State Capitol Police Subdivision	11.09%	10.00%
Administrative Offices of the Courts Subdivision	12.00%	12.00%
County Division	11.09%	10.00%
Municipal Division	11.09%	10.00%
School Division	4.00%	4.00%
Other Non-State Division	11.09%	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, 2005 and 2004, APERS confirmed as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.

• • • •



## Summary of Significant Accounting Practices

**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.

**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.

## Cash and Cash Equivalents

Deposits are carried at cost and are included in "Cash and Cash Equivalents". Cash and cash equivalents include demand accounts, cash in state treasury and short-term investment funds (STIF). The cash is invested in the STIF through daily sweeps of excess cash by the System's custodial bank. The Short-term Investment Fund is a bank sponsored commingled fund which invests in U.S. Government and Agency securities and other short-term instruments. State Treasury Management Law governs the management of funds held in the State Treasury (Cash in State Treasury) and it is the responsibility of the Treasurer of State to ensure the funds are adequately insured and collateralized. Cash and equivalents totaled \$219,020,715 at June 30, 2005. This total consisted of cash deposits with financial institutions of \$848,368, STIF accounts in the amount of \$218,072,183, and \$99,964 cash in state treasury and a petty cash fund of \$200.

**Custodial Credit Risk** - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will be able to recover collateral securities. The System's deposit policy is to place deposits only in collateralized or insured accounts. As of June 30, 2005 none of the System's bank balance of \$848,368 was exposed to custodial credit risk.

## Investments

Arkansas Code Annotated 24-2-601 thru 24-2-619 authorizes the Board of Trustees of the Arkansas Public Employees Retirement System to have full power to invest and reinvest monies of the system and to hold, purchase, sell, assign, transfer or dispose of any on the investments, or proceeds of the investment in accordance with the prudent investor rule. Security transactions and any resulting gains or losses are accounted for on a trade basis. 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.

The Code also states the system shall seek to invest not less than five percent (5%) nor more than ten percent (10%) of the System's portfolio in Arkansas related investments. APERS recognizes a legal responsibility to seek to invest in the Arkansas economy, while realizing its primary, legal, and fiduciary commitment is to beneficiaries of the retirement system, under the prudent investor rule.

Asset allocation guidelines have been established as follows:

• Asset Allocation	Target	Lower Limit	Upper Limit
• Equities	68%	63%	73%
• Fixed Income	22%	17%	27%
• Alternatives	10%	5%	10%

Investments are reported at fair value as determined by the custodian bank. The bank's determination of fair values includes, among other things, using pricing services or quotes by independent brokers at current exchange rates. As of June 30, 2005, the System had the following investments:

Investment Type	Fair Value
U.S. Government Agency Securities	\$ 352,704,738
U.S. Government Securities	86,605,545
Convertible Bonds	132,266,649
Collateralized Obligations	106,052,354
Municipal Bonds	20,336,671
Convertible Preferred Stock	43,012,269
Domestic Stock	1,559,574,683
Domestic Equity Commingled	202,400,000
High Yield Income Fund	37,565,409
Real Estate	157,623,725
Timberland	157,314,473
Domestic Equity Index Funds	444,471,708
Corporate Bonds	274,794,448
International Government Fixed	29,233,376
Global Corporate Fixed	2,845,698
Global Equity	435,197,990
International Equity Pooled Fund Units	440,473,830
Emerging Markets	40,493,042
Total	\$4,522,966,608
<b>Securities Lending Collateral</b>	
U.S. Corporate Fixed Income	214,934,526
Bank Obligations	74,998,414
Asset Backed Securities	117,940,708
Certificates of Deposit	95,488,238
Repurchase Agreements	148,137,244
Total	\$ 651,499,130
Total Investments	\$5,174,465,738

**Custodial Credit Risk** – Custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust department or agent but not in the System’s name. The System’s investment policy for custodial credit risk is described below. Within the System’s total \$5,174,468,613 investments at June 30, 2005, \$651,499,130 was cash collateral reinvestment securities acquired by the custodian, whom is also the lending agent/counterparty. The fair value of cash collateral securities as of June 30, 2005, consisted of:

Security Type	Fair Value
U.S. Corporate Fixed Income	214,934,526
Bank Obligations	74,998,414
Asset Backed Securities	117,940,708
Certificates of Deposit	95,488,238
Repurchase Agreements	148,137,244
<b>Total</b>	<b>\$ 651,499,130</b>

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Also, investments can be highly sensitive to changes in interest rates due to their terms or characteristics. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

#### Investment Maturities (in years)

Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
US Government Securities	\$ 86,605,545	\$ 397,672	\$ 37,779,908	\$ 16,709,280	\$ 31,718,685
US Government Agency	352,704,738	5,621,244	58,580,958	17,491,288	271,011,248
Collateralized Obligations	106,052,354		14,961,685	6,247,799	84,842,870
Convertible Bonds	132,266,649		24,910,365	9,171,281	98,185,003
Corporate Bonds	274,794,448	23,587,677	107,785,781	86,878,506	56,542,484
High Yield Income fund	37,565,408	19,814,309	17,751,099		
Emerging Markets Bond Fund	6,990,466				6,990,466
Emerging Markets	33,502,577		10,347,741	14,384,553	8,770,283
Global Corporate Fixed	2,845,698		64,065	1,278,450	1,503,183
Global Government Fixed	29,233,376		16,711,248	10,570,650	1,951,478
Municipal Bonds	20,336,671	2,060,220	6,670,583	1,684,342	9,921,526
<b>Total</b>	<b>\$1,082,897,930</b>	<b>\$51,481,122</b>	<b>\$295,563,434</b>	<b>\$164,416,149</b>	<b>\$571,437,225</b>
<b>Securities Lending Collateral</b>					
US Corporate Fixed Income	\$214,934,526	\$ 19,012,920	\$195,921,606		
Bank Obligations	74,998,414	10,001,500	64,996,914		
Asset Backed Securities	117,940,708		117,940,708		
Certificates of Deposit	95,488,238	51,489,318	43,998,920		
Repurchase Agreements	148,137,244	148,137,244			
<b>Total</b>	<b>\$651,499,130</b>	<b>\$228,640,982</b>	<b>\$422,858,148</b>		

**Mortgage-Backed Securities** - As of June 30, 2005 the System held mortgage-backed securities of approximately \$238 million 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

At June 30, 2005, the System held no mortgage-backed securities that were considered as highly sensitive to changes in interest rates.

**Asset-Backed Securities** - As of June 30, 2005 the System held asset-backed securities with a fair value of approximately \$106 million. 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.

At June 30, 2005, the System held no asset-backed securities that were considered as highly sensitive to changes in interest rates.

**Foreign Currency Risk** - A foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System does not have a formal investment policy for foreign currency risk. All foreign currency investments are in equities, fixed income, cash and forward contracts.

The System's exposure to foreign currency at June 30, 2005 was as follows:

Currency	%	Fair Value
Australian Dollar	4.10%	\$ 18,763,735
British Pound Sterling	23.86%	108,026,572
Canadian Dollar	5.78%	26,292,885
Chilean Peso	0.17%	758,083
Danish Krone	1.08%	4,758,395
Euro Currency	29.91%	137,308,213
Hong Kong Dollar	2.97%	13,042,729
Japanese Yen	19.57%	86,027,568
Malaysian Ringgit	0.34%	1,483,162
Mexican Nuevo Peso	0.12%	517,205
Norwegian Krone	0.00%	2,592
New Zealand Dollar	(0.30)%	(2,031,496)
Polish Zloty	0.36%	1,593,586
Singapore Dollar	1.78%	7,812,010
South Korean Won	(0.33)%	(1,452,600)
Swedish Krone	1.56%	6,865,058
Swiss Franc	9.02%	39,640,991
Total Fair Value	100.00%	\$449,408,688

**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, 2005 the System had outstanding forward exchange currency contracts to sell foreign currencies in the amount of \$44,977,623. The market values of these outstanding contracts were \$43,710,345 at June 30, 2005, resulting in net gain of \$1,267,279. The System also had outstanding forward currency contracts to purchase foreign currency with contracts in the amount of \$12,348,701. The market values of these contracts were \$12,016,264 at June 30, 2005, resulting in net loss of \$332,438.

**Pooled Funds** - APERS has approximately \$447 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.

**Credit Risk** – Credit risk of investments is the risk that the issuer or other counterparty will not meet its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. The System does not have a formal investment policy for credit risk. The System’s exposure to credit risk as rated by Standard and Poor’s (S&P) and Moody’s Investor Service as of June 30, 2005 is as follows:

<b>Standard &amp; Poor’s</b>	
Rating	Fair Value
AGY	\$ 331,360,427
AAA	140,181,156
AA	23,163,283
A	131,552,267
BBB	147,256,097
BB	112,116,853
B	42,412,890
CCC or below	4,502,538
Not Rated	63,746,874
	\$ 996,292,385
<b>Securities Lending Collateral</b>	
AAA	139,953,688
AA	152,875,003
A	210,533,195
Not Rated	148,137,244
Totals	651,499,130

<b>Moody’s Investor Service</b>	
Rating	Fair Value
AGY	\$ 204,399,303
Aaa	235,958,408
Aa	47,223,616
A	111,358,994
Baa	174,656,612
Ba	70,061,401
B	52,069,863
C or below	5,325,443
Not Rated	95,238,745
	\$ 996,292,385
Aaa	139,953,688
Aa	272,896,160
A	10,008,300
P-1	80,503,738
Not Rated	148,137,244
Totals	651,499,130

The Bank of New York provided the above summaries of S&P and Moody’s ratings.

**Concentration of Credit Risk** – The concentration of credit risk is the risk of loss attributed to the magnitude of the System’s investment in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds or external investment pools). The System does not have a formal investment policy for concentration of credit risk. None of the System’s investments in any one issuer (other than those issued or guaranteed by the U.S. Government) represented more than five percent (5%) of total investments.

**Securities Lending** - 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, 2005, there were no violations of the Agency Agreement. Certain securities of the trust fund are loaned to participating brokers. As of June 30, 2005, 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. 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 30 days on June 30, 2005, whereas the weighted average loan maturity was 1 day. As of June 30, 2005, investments with cash collateral were approximately \$652 million

**Convertible Corporate Bonds** - As of June 30, 2005, the System held convertible bonds with a fair value of approximately \$132 million. Convertible bonds convey an option to the bondholders to be exchanged for another asset, generally a fixed number of shares of common stock at a pre-stated price. As of June 30, 2005, the System held \$2,435,000 bonds issued by Wyeth Pharmaceuticals maturing on January 15, 2024. The amount of semiannual coupon is calculated at the six month LIBOR rate minus 50 basis points. A variable coupon varies directly with movements in interest rates. At June 30, 2005 the bonds had a fair value of \$2,493,903. Of the approximately \$132 million held by the System at June 30, 2005, the \$2,493,903 are considered highly sensitive to interest rate changes.

## 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 a by-product of achieving level contribution financing, actuarial accrued liabilities usually become more and more funded over a period of years. Funded ratios in the 80% to 95% range are common in public sector retirement plans. The reserve strength of APERS remains strong, both by absolute and relative measures. 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.

The following tables explain reserve balances for the respective divisions for the fiscal years ending June 30, 2005 and 2004.

## Divisions and Respective Reserve Balances

as of June 30, 2005 and 2004

### 2005 Reserve Balances

<u>June 30, 2005</u>	<u>State Division</u>		<u>Local Government Division</u>			<u>Non-State Employers</u>	<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>			
Members' Deposit Account	\$ 10,577,565	\$ 1,856,209	\$ 1,784,937	\$ 1,180,541	\$ 79,954	\$ 15,479,206	
MDA Interest Reserve	1,997,668	258,037	176,239	208,281	6,342	2,646,567	
Employer Accumulation Account	1,953,254,631	343,770,444	171,553,237	130,900,947	3,502,222	2,602,981,481	
Retirement Reserve	1,150,322,605	280,641,577	106,480,606	193,057,297	937,116	1,731,439,201	
Deferred Annuity	144,823,302	33,112,143	14,709,873	26,567,107	424,070	219,636,495	
DROP Reserve	60,378,042	3,737,386	2,429,456	1,841,150	0	68,386,034	
Delinquent Receivable Reserve	65	8	0	0	0	73	
Refund Overpayment Receivable Reserve	351	0	0	0	0	351	
Outlawed Warrants	73,418	4,359	1,539	10,549	0	89,865	
Partial Purchase of Service Reserve	92,015	17,407	2,204	6,884	0	118,510	
Petty Cash Reserve	200	0	0	0	0	200	
Total	<u>\$3,321,519,862</u>	<u>\$663,397,570</u>	<u>\$297,138,091</u>	<u>\$353,772,756</u>	<u>\$4,949,704</u>	<u>\$4,640,777,983</u>	

### 2004 Reserve Balances

<u>June 30, 2004</u>	<u>State Division</u>		<u>Local Government Division</u>			<u>Non-State Employers</u>	<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>			
Members' Deposit Account	\$ 11,969,897	\$ 2,048,130	\$ 1,930,876	\$ 1,391,245	\$ 35,686	\$ 17,375,834	
MDA Interest Reserve	2,706,234	358,552	179,717	336,164	5,117	3,585,784	
Employer Accumulation Account	1,828,198,930	310,845,512	154,052,181	133,074,837	2,864,506	2,429,035,966	
Retirement Reserve	1,050,967,112	265,019,144	98,771,814	182,594,359	791,083	1,598,143,512	
Deferred Annuity	132,319,601	30,261,964	12,335,338	25,656,317	363,115	200,936,335	
DROP Reserve	50,468,209	3,998,216	1,772,054	1,255,010	0	57,493,489	
Delinquent Receivable Reserve	65	8	0	0	0	73	
Refund Overpayment Receivable Reserve	351	0	0	0	0	351	
Outlawed Warrants	71,231	4,359	1,539	10,301	0	87,430	
Partial Purchase of Service Reserve	140,728	34,276	5,034	7,030	0	187,068	
Petty Cash Reserve	200	0	0	0	0	200	
Total	<u>\$3,076,842,558</u>	<u>\$612,570,161</u>	<u>\$269,048,553</u>	<u>\$344,325,263</u>	<u>\$4,059,507</u>	<u>\$4,306,846,042</u>	



## 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

Fiscal Year	Annual Required Contribution	Percentage Contributed
1995	75,028,320	100
1996	76,772,911	100
1997	82,050,663	100
1998	87,528,945	100
1999	93,322,444	100
2000	96,348,947	100
2001	100,925,338	100
2002	109,037,491	100
2003	115,690,798	100
2004	118,419,346	100
<b>2005</b>	<b>135,027,446</b>	<b>100</b>

See Note to Required Supplementary Information

#### Schedule of Funding Progress *(Dollars in Millions)*

Valuation Date	(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
6/30/04	4,438	5,005	567	89	1,176	48.2
<b>6/30/05</b>	<b>4,584</b>	<b>5,323</b>	<b>739</b>	<b>86</b>	<b>1,215</b>	<b>60.8</b>
<b>6/30/05@#</b>	<b>4,584</b>	<b>5,619</b>	<b>1,035</b>	<b>82</b>	<b>1,215</b>	<b>85.2</b>

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.

\* Please note that columns designated (1), (2) and (3) may not add across due to rounding.

### 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, 2005
Actuarial Cost Method	Individual entry age
Amortization Method	Level percent of payroll, open
Remaining Amortization Period	22 years
Asset Valuation Method	4-year smoothed market
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.0%
Projected Salary Increases	4.7% – 9.8%
Wage Inflation Rate	4.0%
Post-Retirement Cost-of-Living Adjustment	3.0%, Annual Compounded Increase
Mortality Table	1983 Group Annuity Mortality Table

### Supporting Schedules

#### Schedule of Investment Expense

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Investment consultant fee	\$ 153,000	\$ 147,000
Money manager fees	14,156,555	12,090,353
Custodian bank fees	571,599	531,887
International withholding taxes	819,279	578,610
Securities lending expenses	14,443,840	6,626,918
<b>TOTAL INVESTMENT EXPENSE</b>	<u>\$30,144,273</u>	<u>\$19,974,768</u>

#### Schedule of Payments for Professional Consultants

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Gabriel, Roeder, Smith & Company	\$162,205	\$139,490
Other	12,203	2,819
<b>Total Payments for Professional Consultants</b>	<u>\$174,408</u>	<u>\$142,309</u>

For fees paid to investment managers, please see “Schedule of Investment Fees” shown on page 46 in the Investment Section of this report.

## Supporting Schedules

### Schedule of Administrative Expense For the Years Ended June 30, 2005 and 2004

	2005	2004
<b>PERSONNEL SERVICES:</b>		
Salaries and wages	\$1,913,335	\$1,963,244
Employee benefits	400,952	316,676
Insurance	188,184	182,167
Other	8,349	(5,116)
Total Personnel Services	<u>2,510,820</u>	<u>2,456,971</u>
<b>COMMUNICATIONS:</b>		
Postage	117,943	82,774
Telecommunications	37,058	33,774
Printing and advertising	46,578	12,050
Freight and Express	3,521	663
Subscriptions and publications	3,800	5,621
Total Communications	<u>208,900</u>	<u>134,882</u>
<b>PURCHASES:</b>		
Office Supplies	91,160	99,657
Equipment	84,294	11,477
Total Purchases	<u>175,454</u>	<u>111,134</u>
<b>SERVICES AND CHARGES:</b>		
Professional fees and services	174,408	142,309
Rent expense	346,896	358,032
Travel and conference fees	41,227	46,177
Taxes, licenses and permits	79	79
Repairing and servicing	77,499	36,674
Training fees	1,507	0
Insurance and surety bonds	4,246	4,169
Bank and federal service charges	28,862	27,898
Data processing charges	722,335	1,386,578
Claims commission expense	1,153	11,396
Total Services and Charges	<u>1,398,212</u>	<u>2,013,312</u>
<b>DEPRECIATION EXPENSE</b>	<u>19,695</u>	<u>43,228</u>
<b>TOTAL ADMINISTRATION EXPENSES</b>	<u>\$4,313,081</u>	<u>\$4,759,527</u>

# Investment

## *Investment Section* INVESTMENT SECTION

- Report on Investments
- Outline of Investment Policies
- Actual vs. Target Asset Allocation
- Manager Distribution
- Performance Comparisons
  - Fiscal Years 2001 through 2005
  - Current Year & Preceding 3-Year & 5-Year Rates of Return
- Portfolio Characteristics
- List of Ten Largest Assets Held
- Schedule of Brokerage Commissions
- Schedule of Investment Fees
- Comparative Schedule of Investments



*This Page Intentionally Left Blank*

# CALLAN ASSOCIATES<sup>INC.</sup>

Paul V. Troup III  
Executive Vice President



August 29, 2005

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, 2005.

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

During the fiscal year ending June 30, 2005 returns were modest compared to fiscal year 2004. Equity Real Estate and International stocks were the best performing asset classes. The NCREIF Index, a real estate benchmark, had an 18% return for the year while MSCI EAFE, an international index, rose 13.7%.

## **Fund Progress and Results**

The APERS portfolio structure is based on the Fund's Investment Policy. The target asset mix is established based on 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 6/30/05 are listed below:

	<b><u>Target</u></b>	<b><u>Actual</u></b>
Domestic Equity	50%	51%
International Equity	18%	19%
Domestic Fixed	22%	22%
Other	0%	0%
Alternative Inv./Real Estate	10%	8%

The asset allocation is different from the target due to incomplete funding for the alternative category.

For fiscal year ended 2005, the total fund rate of return, including gains, losses and income was 9.85%. This return is calculated using the time-weighted rate of return methodology endorsed by the

CFA Institute. All performance results presented in the investment section of the CAFR are based on AIMR-PPS methodology.

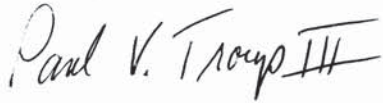
Over the past 5 years, the Fund has had an annualized return of 3.57%. This level of performance fails to meet the performance objective of the Fund which is to deliver a real rate of return (return in excess of the inflation rate) of 2.25%. The return also failed to exceed the actuarially assumed interest rate assumption of 8%.

At the beginning of the fiscal year, the assets of the fund totaled \$4.31 billion; at June 30, 2005, the Fund assets totaled \$4.64 billion. Positive performance of the equity markets contributed to the 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 black ink that reads "Paul V. Troup III". The signature is written in a cursive style with a horizontal line through the middle of the name.

Paul V. Troup III

# Outline of Investment Policies

## Investment Objectives

The investment objective 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

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:

### Market Value Exposure

Asset Class	Range	Target
Equities	63% — 73%	68
Fixed Income	17% — 27%	22
Alternatives	5% — 10%	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.

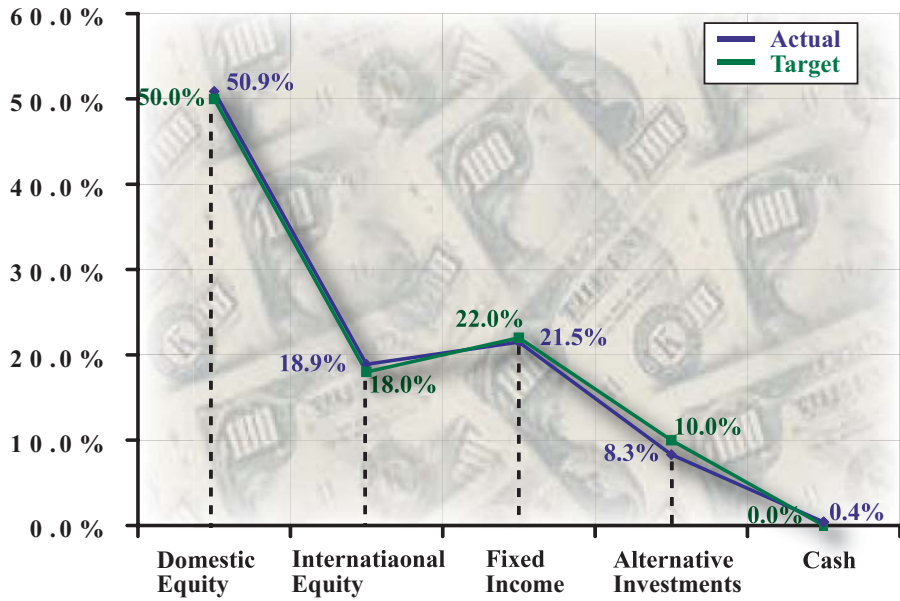
C. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of:

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 Asset and Target Asset Allocation**  
For the Period Ended June 30, 2005



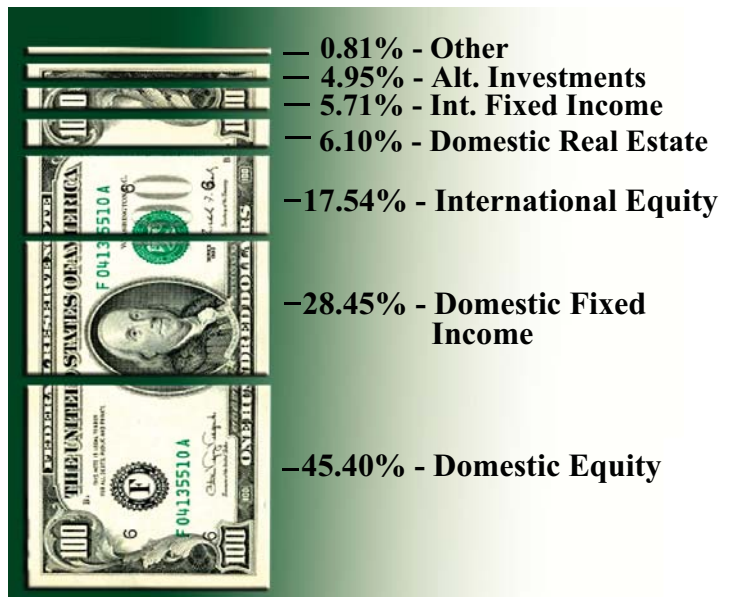
The graph to the left shows the Fund’s asset allocation as of June 30, 2005. The blue line represents the actual asset allocation; the green line represents the target asset allocation as outlined in the investment policy statement.

The table below gives a further breakdown of the asset allocation, showing the difference in percentage and actual dollar amounts between the Actual and Target allocations.

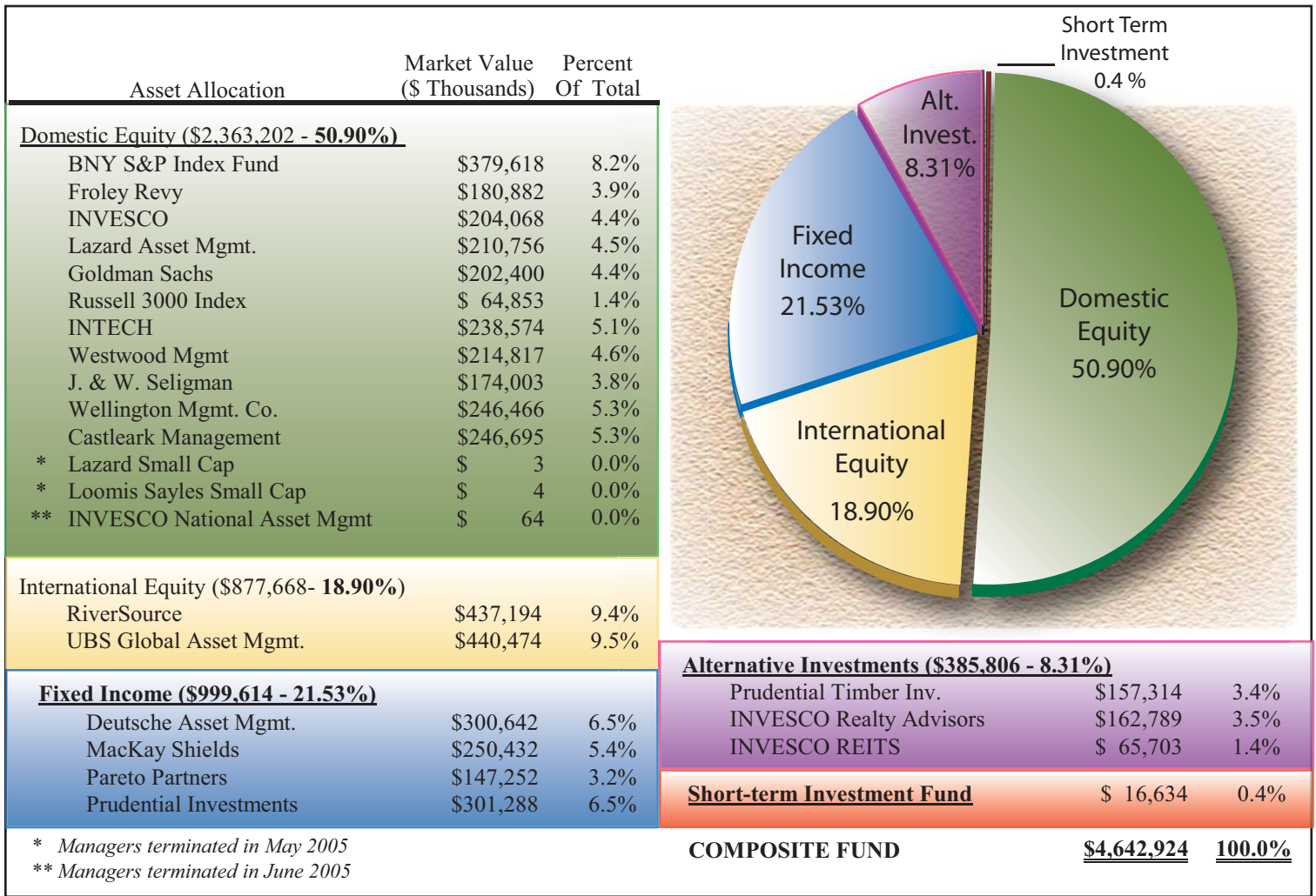
Asset Class	\$ 000s Actual	Percent Actual	Percent Target	Percent Difference	\$ 000s Difference
Domestic Equity	\$2,363,202	50.9%	50%	0.9 %	\$41,740
Int'l Equity	877,668	18.9	18	0.9	71,941
Fixed-Income	999,614	21.5	22	(0.5)	(21,829)
Alt. Investments	385,806	8.3	10	(1.7)	(78,487)
Cash	16,634	0.4	0	0.4	16,634
<b>Total</b>	<b>\$4,642,924</b>	<b>100.0%</b>	<b>100%</b>		

**Public Plan Sponsor Database**

This illustration to the right shows the average percentage of asset allocations by asset type for the Callan Associates Inc. Public Plan Sponsor Database.



**Manager Distribution**  
For the Period Ended June 30, 2005



\* Managers terminated in May 2005  
\*\* Managers terminated in June 2005

**Composite Fund Comparison**  
For the Years 2001 - 2005



## Performance Comparisons

For Fiscal Year Ended June 30, 2005

<u>Fiscal Years Ended June 30</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Total Fund:</b>					
Arkansas Public Employees Retirement System	9.85%	13.40%	5.53%	(5.74)%	(3.82)%
Callan Total Public Fund Median	9.22	14.96	3.74	(5.36)	(4.06)
Inflation (Consumer Price Index)	2.59	3.17	2.10	0.74	3.19
<b>Equities:</b>					
Arkansas Public Employees Retirement System	8.13%	20.21%	(0.19)%	(16.39)%	(12.87)%
Callan Total Equity Database Median	9.52	23.54	(0.15)	(14.21)	(5.28)
Standard & Poor's 500 Index	6.32	19.11	0.25	(17.99)	(14.83)
<b>International Equities:</b>					
Arkansas Public Employees Retirement System	13.19%	27.23%	(7.03)%	(5.93)%	(23.18)%
Callan Total Non-US Equities Database Median	14.77	31.35	(6.03)	(7.88)	(23.05)
MSCI-EAFE Index	13.65	32.37	(6.46)	(9.49)	(23.60)
<b>Fixed Income:</b>					
Arkansas Public Employees Retirement System	8.18%	2.41%	12.30%	6.04%	9.72%
Callan Total Fixed Income Database Median	6.71	0.71	10.52	7.98	11.03
Lehman Bros. Aggregate Index	6.80	0.32	10.40	8.63	11.22

Source: Callan Associates Inc. (Callan 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>	<u>2005</u>	<u>Annualized 3-Year</u>	<u>5-Year</u>
<b>Total Fund:</b>			
Arkansas Public Employees Retirement System	9.85 %	9.55 %	3.56 %
Callan Total Public Fund Median	9.22	9.12	3.92
Inflation (Consumer Price Index)	2.59	2.62	2.36
<b>Equities:</b>			
Arkansas Public Employees Retirement System	8.13 %	9.06 %	(1.12) %
Callan Total Equity Database Median	9.52	11.04	3.41
Standard & Poor's 500 Index	6.32	8.28	(2.37)
<b>International Equities:</b>			
Arkansas Public Employees Retirement System	13.19 %	10.21 %	(0.66) %
Callan Total Non-US Equities Database Median	14.77	12.74	1.16
MSCI-EAFE Index	13.65	12.06	(0.55)
<b>Fixed Income:</b>			
Arkansas Public Employees Retirement System	8.18 %	7.55 %	7.68 %
Callan Total Fixed Income Database Median	6.71	5.88	7.36
Lehman Bros. Aggregate Index	6.80	5.76	7.40

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

## Portfolio Characteristics

For Fiscal Year Ended June 30, 2005

	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Selected Bond Characteristics:</b>		
Yield to Maturity (Market)	4.82 %	5.06 %
Current Yield	5.36	5.63
Average Coupon Rate	5.31	5.51
Average Maturity	7.31 Yrs.	6.74 Yrs.
<b>Quality Breakdown:</b>		
AAA (Includes Govts. & Agencies)	60.70 %	57.00 %
AA	4.30	3.00
A	7.70	7.00
BAA	16.30	18.00
BA	4.40	5.00
B	1.80	4.00
Below C	0.50	2.00
*Cash	4.30	4.00
<b>Selected Stock Characteristics:</b>		
Average P/E Ratio	19.19 x	21.52 x
Estimated Earnings Growth Rate (Next 5 Years)	13.18 %	12.94 %
Current Yield	1.49	1.41

\* Includes Short-Term Investment Fund

## List of Ten Largest Assets Held

As of June 30, 2005

<b>Domestic Fixed Income Holding (By Market Value)</b>			
	<b>Par</b>	<b>Security</b>	<b>Market Value</b>
1)	13,940,000	Fed Nat'l Mtg. Assn. 3.875% 07/15/08	\$13,931,288
2)	8,718,987	US Treasury Note Inflation Index 3.625% 01/15/08	9,226,119
3)	8,708,898	Targeted Return Index Security 8.218% 8/1/15	9,198,774
4)	7,320,000	US Treasury Bond 5.375% 2/15/31	8,637,600
5)	6,736,000	US Treasury Bond 6% 2/15/26	8,299,493
6)	7,650,039	FNMA Pool #725162 6% 2/1/34	7,845,956
7)	7,383,767	FNMA Pool #254983 5.50% 12/1/33	7,491,570
8)	7,405,000	US Treasury Note 4% 2/15/15	7,431,288
9)	7,000,000	US Treasury Note 3.375% 2/15/08	6,949,110
10)	5,760,000	General Motors Acceptance Corp 6.125% 9/15/06	5,764,147
<b>Total</b>			<b>\$84,775,345</b>

<b>Domestic Equity Holding (By Market Value)</b>			
	<b>Shares</b>	<b>Security</b>	<b>Market Value</b>
1)	664,648	Exxon Mobil Corp.	\$ 38,197,321
2)	1,142,857	Microsoft Corp.	28,388,568
3)	608,230	Bank of America Corp.	27,741,370
4)	568,266	Citigroup Inc.	26,270,937
5)	573,085	General Electric Co.	19,857,395
6)	255,780	Johnson & Johnson	16,625,700
7)	191,100	Altria Group Inc.	12,356,526
8)	102,568	The Goldman Sachs Group, Inc.	10,463,987
9)	214,108	Wal-Mart Stores Inc.	10,320,006
10)	266,500	Apple Computer Inc.	9,809,865
<b>Total</b>			<b>\$200,031,675</b>

<b>International Equity Holding (By Market Value)</b>			
	<b>Shares</b>	<b>Security</b>	<b>Market Value</b>
1)	115,468	Roche Holding AG	\$14,623,963
2)	44,831	TOTAL SA	10,546,874
3)	1,741,572	Tesco	9,951,742
4)	338,429	ENI SPA	8,732,198
5)	108,150	UBS AG	8,444,601
6)	459,378	Standard Chartered PLC	8,399,972
7)	3,336,922	Vodafone Group PLC	8,135,653
8)	333,704	GlaxoSmithKline PLC	8,082,100
9)	119,666	Royal Dutch Petroleum Co	7,824,148
10)	870,560	Prudential PLC	7,744,738
<b>Total</b>			<b>\$92,485,989</b>

## Schedule of Brokerage Commissions

As of June 30, 2005

<u>Brokerage Firm</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Goldman, Sachs & Co.	15,041,770	\$ 352,188	0.02
Deutsche Bank Securities Inc.	4,070,182	325,788	0.08
Merrill Lynch	6,195,862	318,399	0.05
Lehman Brothers Inc.	5,547,825	315,721	0.06
Citigroup Global Markets Inc.	3,777,900	290,079	0.08
Credit Suisse First Boston LLC	3,280,318	286,110	0.09
J. P. Morgan Securities Inc.	3,693,505	272,356	0.07
BNY Brokerage Inc.	14,196,770	233,665	0.02
Morgan Stanley & Co.	7,085,780	203,198	0.03
Bear Stearns	4,961,102	201,456	0.04
UBS Securities LLC	3,924,436	105,818	0.03
Banc Of America Securities LLC	2,062,820	103,230	0.05
Weeden & Co.	4,012,400	84,914	0.02
Instinet	2,732,508	72,719	0.03
Robert W. Baird & Co. Inc.	1,390,048	70,584	0.05
National Financial Services	1,386,180	68,181	0.05
Jefferies & Company, Inc.	1,680,280	50,569	0.03
Citation Financial Group	829,030	49,564	0.06
Sanford C. Bernstein & Co.	1,203,200	46,684	0.04
RBC Capital Markets Corporation	1,019,625	45,207	0.04
Other (Includes 107 Brokerage Firms)	<u>20,915,976</u>	<u>823,460</u>	0.04
	<u>109,007,517</u>	<u>\$4,319,890</u>	0.04

## Schedule of Investment Fees

As of June 30, 2005

<u>Equities</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Froley, Revy - Convertible Securities	\$ 180,882,382	\$ 721,596	40
INVESCO - Value	204,068,202	544,519	30
Lazard Asset Mgmt. - Value	210,756,185	617,353	30
Lazard Asset Mgmt. - Small Cap **	3	335,145	50
Loomis, Sayles - Small Cap **	4	229,645	30
J & W Seligman - Growth	174,003,970	396,146	30
INTECH - Growth	238,574,518	621,308	48
Goldman Sachs - Small/Mid Cap ****	202,400,000	52,402	45
BNY Index Funds	444,471,708	153,165	3
Westwood Asset Mgmt - Small/Mid Cap ***	214,817,338	141,788	59
INVESCO National Asset Mgmt. - Growth *	64,158	439,122	25
CastleArk Mgmt - Growth	246,695,713	761,842	35
Wellington Mgt. Co. - Value	246,467,625	645,038	30
UBS Global Asset Mgmt - Int'l Value	440,473,830	2,138,233	50
RiverSource - Int'l Growth	<u>437,194,021</u>	<u>2,137,598</u>	50
Total Equity	\$3,240,869,657	\$ 9,934,899	

\* Manager Terminated June 2005

\*\* Managers Terminated May 2005

\*\*\* Manager Hired May 2005

\*\*\*\* Manager Hired June 2005

<u>Fixed Income</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Deutsche Asset Mgmt. - Core Plus	\$ 300,642,420	\$ 521,627	20
MacKay Shields - Core Plus	250,431,824	484,459	20
Pareto Partners - Core Plus	147,252,341	290,921	15
Prudential Asset Mgmt. - Core Plus	<u>301,288,034</u>	<u>557,558</u>	20
Total Fixed Income	\$ 999,614,619	\$ 1,854,565	

<u>Alternatives</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
PruTimber – Timberland	\$ 157,314,473	\$ 1,319,348	90
INVESCO Realty - Real Estate & REITS	<u>228,491,065</u>	<u>1,106,083</u>	65
Total Alternatives	\$ 385,805,538	\$ 2,425,431	

Other Investment Services

	<u>Fee</u>
Bank of New York (Custodian)	\$ 543,444
Bank of New York (Securities Lending)	489,529
Callan Associates (Consultant)	<u>153,000</u>
Total Other Services	<u>1,185,973</u>
<b>Total Investment Service Fees</b>	<b><u>\$15,400,868</u></b>

## Comparative Schedule of Investments

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
U.S. Government Securities:		
U.S. Government Securities	\$ 86,605,545	\$ 80,641,818
U.S. Government Agency Securities	352,704,738	315,412,784
Corporate Securities:		
Collateralized Obligations	106,052,354	0
Asset Backed Securities	0	36,099,669
Corporate Bonds	274,794,448	313,807,921
Corporate CMO	0	43,834,240
Convertible Bonds	132,266,649	137,058,613
Convertible Preferred Stock	43,012,269	36,059,855
Common Stock	1,559,574,683	1,223,768,277
Equity Index Funds	444,471,708	893,277,051
Equity Co-mingled	202,400,000	0
High Yield Income Fund	37,565,408	38,703,011
International Securities:		
Government Fixed Obligations	29,233,376	14,363,917
Corporate Fixed Income	2,845,698	1,644,786
Equity Securities	435,197,990	382,353,841
Equity Pooled Fund Units	440,473,830	391,641,407
Emerging Markets	40,493,043	24,930,353
Real Estate		
Real Estate	157,623,725	64,908,065
Timberland	157,314,473	157,301,764
Municipal Bonds	20,336,671	22,818,100
Short Term Investments	<u>218,581,305</u>	<u>175,283,812</u>
<b>TOTAL INVESTMENTS*</b>	<b><u>\$4,741,547,913</u></b>	<b><u>\$4,353,909,284</u></b>

\* At Fair Value.



*This Page Intentionally Left Blank*

# Actuarial

## *Actuarial Section* ACTUARIAL SECTION

Actuary's Certification Letter

Summary of Assumptions Used

Summary of Actuarial Methods and Assumptions

Active Member Valuation Data

Short Condition Test

Analysis of Financial Experience

Analysis of Financial Experience - Gains and Losses by Risk Area

Summary of Plan Provisions (Contributory and Non-Contributory)



*This Page Intentionally Left Blank*



**GABRIEL, ROEDER, SMITH & COMPANY**  
Consultants & Actuaries

---

One Towne Square ● Suite 800 ● Southfield, Michigan 48076 ● 248-799-9000 ● 800-521-0498 ● fax 248-799-9020

November 10, 2005

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

Dear Board Members:

*The basic financial objective of the Arkansas Public Employees Retirement System (APERS) 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 APERS 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, 2005.

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

**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, 2005 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, 2005 valuations and the benefits and contribution rates then in effect, it is our opinion that the Arkansas Public Employees Retirement System is in sound condition in accordance with actuarial principles of level cost financing.***

Respectfully submitted,



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

NLJ:dlh:sew

# Summary of Assumptions Used in Actuarial Valuations

## *Assumptions Adopted by Board of Trustees after Consulting with Actuary June 30, 2005 Valuation*

### Economic Assumptions

**T**he *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 wage inflation rate of 4.00%, the 8.00% investment return rate translates to an assumed net real rate of return of 4.00%. This rate of assumption was first used for the June 30, 2002 valuation.

*Pay increase assumptions* for individual active members are shown on page 55. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.00% 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 54. 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 55.

*The probabilities of retirement for members eligible to retire* are shown on page 56.

*The ultimate entry age normal actuarial cost method of valuation* was used in determining liabilities and normal cost. The normal cost is based on the benefits applicable to new hires. 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 (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, 2005 Valuation**

Actuarial Assumptions as of June 30, 2005

Valuation Date	June 30, 2005
Actuarial Cost Method	Individual entry age
Amortization Method	Level percent of payroll, open
Remaining Amortization Period	22 years
Asset Valuation Method	4-year smoothed market
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.0%
Projected Salary Increases	4.7% – 9.8%
Wage Inflation Rate	4.0%
Post-Retirement Cost-of-Living Adjustment	3.0%, Annual Compounded Increase
Mortality Table	1983 Group Annuity Mortality Table

**Single Life Retirement Values**

Based on 1983 Group Annuity Mortality Table - 8.00% Interest

Sample Attained Ages	Present Value of					
	Present Value of		\$1.00 Monthly for Life		Future Life	
	\$1.00 Monthly for Life		Increasing 3% Annually		Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$142.98	\$147.82	\$201.77	\$213.96	38.46	38.46
45	138.18	144.67	190.68	205.34	33.74	33.74
50	132.10	140.42	177.82	194.90	29.18	29.18
55	124.57	134.74	163.18	182.35	24.82	24.82
60	115.04	127.24	146.32	167.43	20.64	20.64
65	103.26	117.61	127.37	150.12	16.69	16.69
70	90.18	105.53	107.87	130.45	13.18	13.18
75	76.40	91.57	88.67	109.59	10.15	10.15
80	62.65	77.16	70.71	89.47	7.64	7.64
85	50.59	62.99	55.72	70.85	5.73	5.73

Sample Attained Ages	Benefit Increasing 3.0 % Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
60	\$100	100%	100%
65	116	94	97
70	134	84	92
75	155	69	84
80	180	51	70

<b>Summary of Actuarial Methods and Assumptions - June 30, 2005 Valuation</b>
---

### 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.



<b>Summary of Actuarial Methods and Assumptions - June 30, 2005 Valuation</b>
---

## Probabilities of Retirement for Members Eligible to Retire

Percent of Eligible Active Members Retiring Within Next Year

<b>State and Local Government Division</b>						<b>General Assembly</b>	
<b>Age-Based Retirement</b>			<b>Service-Based Retirement</b>			<b>Age &amp; Service Based Retirement</b>	
<b>Retirement Ages*</b>	<b>Unreduced</b>	<b>Reduced</b>	<b>Years</b>	<b>Percentages</b>		<b>Retirement Ages</b>	<b>Percentages</b>
				<b>Retirement</b>	<b>DROP</b>		
55		2%	28	20%	35%	50-61	30%
56		2	29	15	20	62	50
57		3	30-35	15	15	63-64	30
58		3	36	20		65	50
59		4	37	30		66	30
60		5	38	100		67-79	20
61		7				80	100
62		23					
63		19					
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 six 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.

\* (Ages for members with less than 28 years of service).

## Schedule of Active Member Valuation Data - Comparative Statements

### State Division

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

### Local Government Division (Combined County, Municipal, School & Other Non-State Employers)

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

### State and Local Government Division

Valuation Date <b>June 30</b>	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
2004	42,772	1,175,040,470	27,472	+2.6%	+3.0
<b>2005</b>	<b>42,916</b>	<b>1,214,612,719</b>	<b>28,302</b>	<b>+3.0%</b>	<b>+3.2</b>

N/A Data not available for this fiscal year.      @ After changes in financial assumptions.  
# After legislated changes in benefit provisions.      & After changes in asset valuation method.

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

## General Assembly Subdivision

Valuation Date <u>June 30</u>	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	<u>Number</u>	<u>Annual Payroll</u>	<u>Dollars</u>	<u>Change</u>	
1993 #@	127	\$ 955,040	\$ 7,520	+0.0	+3.0
1994	128	N/A	12,512	+6.4	+2.5
1995 #	125	N/A	12,512	+0.0	+3.0
1996	124	1,553,000	12,524	+0.0	+2.8
1997 #	125	1,565,500	12,524	+0.0	+3.0
1998 @	121	1,515,500	12,525	+0.0	+2.3
1999	122	1,526,500	12,512	-0.1	+1.7
2000	120	1,500,000	12,500	-0.1	+3.7
2001	87	1,087,500	12,500	+0.0	+3.2
2002	87	1,087,500	12,500	+0.0	+1.1
2003	54	675,000	12,500	+0.0	+2.1
2004	54	745,489	13,805	+10.4	+3.0
<b>2005</b>	<b>22</b>	<b>310,534</b>	<b>14,115</b>	<b>+ 2.2</b>	<b>+3.2</b>

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 APERS 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.

Entry Age Accrued Liability					Portion of Present Values Covered By Present Assets			
Val'n Date: June 30	(1) Active Member Contr.	(2) Retirees and Benef.	(3) Active Members (Employer Fin. Portion) (\$ in Millions)	Valuation Assets	(1)	(2)	(3)	Total
<i>STATE 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 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 AND LOCAL GOVERNMENT DIVISIONS</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
2004	20.5	1,762.2	3,197.6	4,429.9	100	100	83	89
<b>2005</b>	<b>15.5</b>	<b>1,878.2</b>	<b>3,400.0</b>	<b>4,576.1</b>	<b>100</b>	<b>100</b>	<b>79</b>	<b>86</b>
<b>2005@</b>	<b>15.5</b>	<b>1,878.2</b>	<b>3,701.7</b>	<b>4,576.1</b>	<b>100</b>	<b>100</b>	<b>72</b>	<b>82</b>

@ After changes in financial assumptions

# After legislated changes in benefit provisions

## Analysis of Financial Experience

For the Year Ended June 30, 2005

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	\$ 550.4	\$16.1	\$ 566.5
( 2) Normal cost from last valuation	117.3	0.1	117.4
( 3) Actual employer contributions	133.5	1.5	135.0
( 4) Interest accrual: $[(1) + 1/2[(2) - (3)]] \times .080$	43.4	1.2	44.6
( 5) Expected UAAL before changes: $(1) + (2) - (3) + (4)$	577.6	15.9	593.5
( 6) Increase from benefit changes	0.0	0.0	0.0
( 7) Changes from revised actuarial assumptions and methods	296.7	0.0	296.7
( 8) New entrant liabilities	34.0	0.0	34.0
( 9) Expected UAAL after changes: $(5) + (6) + (7) + (8)$	908.3	15.9	924.2
(10) Actual UAAL at end of year	<u>1,019.3</u>	<u>16.1</u>	<u>1,035.4</u>
(11) Gain (loss): (9) - (10)	<u>\$(111.0)</u>	<u>\$(0.2)</u>	<u>\$(111.2)</u>

\* *Unfunded actuarial accrued liability.*

## Analysis of Financial Experience Gains and Losses By Risk Area

Year Ended June 30, 2005

Type of Risk Area	<u>Gain/(Loss) in Period - (\$ in Millions)</u>			<u>% of Accrued Liabilities</u>
	<u>State and Local Gov. Division</u>	<u>General Assembly</u>	<u>Total</u>	
<b>ECONOMIC RISK AREAS</b>				
<b><u>Pay Increases</u></b>				
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 46.7	\$ -	\$ 46.7	0.8 %
<b><u>Investment Return</u></b>				
If there is greater investment return than assumed, there is a gain. If less return, a loss.	(143.4)	0.0	(143.4)	(2.6)%
<b>NON-ECONOMIC RISK AREAS</b>				
<b><u>Non-Casualty Retirements</u></b>				
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.	20.1	0.0	20.1	0.4 %
<b><u>Disability Retirements</u></b>				
If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.5	0.0	0.5	0.0 %
<b><u>Death-in-Service Benefits</u></b>				
If there are fewer claims than assumed, there is a gain. If more, a loss.	0.5	0.0	0.5	0.0 %
<b><u>Withdrawal</u></b>				
If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	<u>28.5</u>	<u>0.0</u>	<u>28.5</u>	<u>0.5 %</u>
<b>Total Actuarial Gains (Losses)</b>	\$ (47.1)	\$ -	\$ (47.1)	(0.8)%
<b><u>Other</u></b>				
Includes data adjustments at retirement, timing of financial transactions, retired life mortality, and miscellaneous unidentified sources.	<u>(63.9)</u>	<u>(0.2)</u>	<u>(64.1)</u>	<u>(1.1)%</u>
<b>Total Actuarial Gains (Losses)</b>	<u><u>\$(111.0)</u></u>	<u><u>\$(0.2)</u></u>	<u><u>\$(111.2)</u></u>	<u><u>(1.9)%</u></u>

# Summary of Plan Provisions

## (Excludes Special Provisions For General Assembly)

July 1, 2005

The Old Contributory Plan is available to persons who became members of APERS before Jan. 1, 1978. The Non-Contributory Plan applies to all persons first hired after Jan. 1, 1978, and before July 1, 2005 in APERS-covered employment. The New Contributory Plan applies to all persons hired after July 1, 2005, in APERS-covered employment, or Non-Contributory members who elect to participate in the New Contributory Plan before Jan. 1, 2005.

### New Contributory Plan

### Non-Contributory Plan

#### Voluntary Retirement

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

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 rate is equal to 1/2 of 1% for each month retirement precedes normal retirement age or 1% for each month away from 28 years of service - whichever is less.

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 taken from either age 65 or 28 years of service - whichever is less. If 28 years is used, the reduction is 1% for each month away from 28 years of service. If age 65 is used, the reduction is 1/2 of 1% for each month away from age 65.

#### 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 deferred. Deferred full retirement benefit, based on service and pay at termination, begins at age 65 with at least 5 years of service. In place of a 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.

A vested member who leaves covered employment before full retirement age is deferred. Deferred full retirement benefit, based on service and pay at termination, begins at age 65 with at least 5 years of service. In place of a deferred full benefit, at age 55 or older 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.

July 1, 2005

## Summary of Plan Provisions

### New Contributory Plan

### Non-Contributory Plan

#### Final Average Compensation

A member's final average compensation is the average of the highest 3 fiscal years of covered compensation.

A member's final average compensation is the average of the highest 3 fiscal years of covered compensation.

#### Full Age and Service Retirement Benefits

The annuity benefit equals 2.00% of FAC times years of credited service.

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, 2005). 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 APERS 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.



# Summary of Plan Provisions

July 1, 2005

## New Contributory Plan

## Non-Contributory Plan

### Member's Contribution Rates

5% 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). Members will earn interest on the contributions at a rate of 4% annually.

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

### Deferred Retirement Option Plan (DROP)

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

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.

# Statistical

## *Statistical Section* 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 Graphs



*This Page Intentionally Left Blank*

## Schedule of Revenues By Source

For the Fiscal Years 2000-2005

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Transfers And Other	Total
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
2004	117,955	118,419,346	484,159,506	9,522,046	612,218,853
<b>2005</b>	<b>82,836</b>	<b>135,027,446</b>	<b>401,429,532</b>	<b>9,354,055</b>	<b>545,893,869</b>

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

## Schedule of Expenses By Type

For the Fiscal Years 2000-2005

Year Ending June 30	Benefit Payments <sup>1</sup>	Administrative Expenses	Refunds	Misc.	Total
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
2004	182,901,681	4,759,527	374,972	-	188,036,180
<b>2005</b>	<b>207,122,449</b>	<b>4,313,081</b>	<b>526,398</b>	<b>-</b>	<b>211,961,928</b>

<sup>1</sup> Includes DROP and PAW distributions.

## Schedule of Benefit Expenses By Type\*

For the Fiscal Years 2000-2005

Year Ending June 30	Age & Service		Death in Service	Disability Retirees
	Retirees	Survivors		
2000	\$107,580,516	\$2,896,032	\$2,972,712	\$6,066,588
2001	116,824,476	3,335,940	3,347,184	6,946,980
2002	132,059,052	3,746,064	3,531,648	7,624,128
2003	142,976,196	4,018,200	3,866,724	8,308,800
2004	154,032,252	4,461,732	4,121,640	9,000,408
<b>2005</b>	<b>168,774,960</b>	<b>6,170,316</b>	<b>4,431,564</b>	<b>9,914,448</b>

\* Expenses are based on June 30 benefit amounts annualized.

**Schedule of Retired Members By Type of Annuities Being Paid**  
As of June 30, 2005

Type of Annuity	Number	Annual Annuities
<b>Age &amp; Service Retirees</b>		
Life	13,520	\$137,756,568
Option A- 60 ( 5 years certain)	477	4,525,392
Option A-120 (10 years certain)	992	9,133,332
Option B- 50 (joint and 50% survivor)	568	8,046,492
Option B- 75 (joint and 75% survivor)	709	7,994,424
Option B-100 (joint and 100% survivor)	<u>87</u>	<u>1,318,752</u>
Totals	16,353	168,774,960
<b>Beneficiaries of Age &amp; Service Retirees</b>		
Life	109	714,576
Option A- 60	23	190,572
Option A-120	164	1,183,104
Option B- 50	202	1,266,792
Option B- 75	288	2,175,840
Option B-100	<u>38</u>	<u>639,432</u>
Totals	<u>824</u>	<u>6,170,316</u>
<b>Total Age &amp; Service Retirees &amp; Beneficiaries</b>	17,177	174,945,276
<b>Disability Retirees</b>		
Life	1,141	7,584,828
Option A- 60	64	372,936
Option A-120	141	873,600
Option B- 50	69	479,052
Option B- 75	94	604,032
Option B-100	<u>0</u>	<u>0</u>
Totals	1,509	9,914,448
<b>Beneficiaries of Disability Retirees</b>		
Life	0	0
Option A- 60	0	0
Option A-120	0	0
Option B- 50	0	0
Option B- 75	0	0
Option B-100	<u>0</u>	<u>0</u>
Totals	0	0
<b>Total Disability Retirees &amp; Beneficiaries</b>	1,509	9,914,448
<b>Death-in-Service Beneficiaries</b>	<u>771</u>	<u>4,431,564</u>
<b>Total Retirees &amp; Beneficiaries</b>	<b>19,457</b>	<b>189,291,288</b>
<b>DROP Participants</b>	<u>1,623</u>	<u>43,628,412</u>
<b>GRAND TOTAL</b>	<b><u>21,080</u></b>	<b><u>\$232,919,700</u></b>

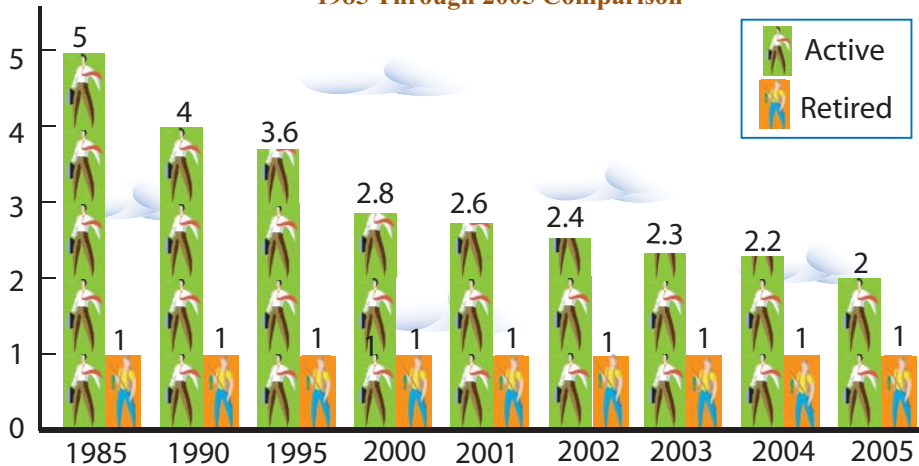
**Schedule of Average Benefit Payments**  
As of June 30, 2005

	<b>Years of Credited Service</b>				
	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>
<b>Retirement Effective Dates</b>					
<b><u>July 1, 2004 to June 30, 2005</u></b>					
Avg. Monthly Benefit	\$ 391.60	\$ 566.68	\$ 784.34	\$ 1,499.54	\$ 1,898.33
Avg. Monthly Final Average Salary	1,959.90	2,036.22	2,216.63	2,753.82	3,119.54
Number of Active Retirants	213	199	165	231	121
<b>Retirement Effective Dates</b>					
<b><u>July 1, 2003 to June 30, 2004</u></b>					
Avg. Monthly Benefit	393.40	581.35	835.56	1,522.11	1,644.32
Avg. Monthly Final Average Salary	1,921.83	2,127.17	2,310.24	2,770.65	2,823.33
Number of Active Retirants	235	199	183	203	65
<b>Retirement Effective Dates</b>					
<b><u>July 1, 2002 to June 30, 2003</u></b>					
Avg. Monthly Benefit	351.00	558.00	837.99	1,666.39	2,286.57
Avg. Monthly Final Average Salary	1,714.87	1,888.32	2,281.18	2,882.16	3,128.72
Number of Active Retirants	220	204	186	226	94
<b>Retirement Effective Dates</b>					
<b><u>July 1, 2001 to June 30, 2002</u></b>					
Avg. Monthly Benefit	376.93	581.71	791.71	1,647.73	2,102.99
Avg. Monthly Final Average Salary	1,801.59	1,935.64	2,118.40	2,693.48	3,007.80
Number of Active Retirants	243	181	185	254	88
<b>Retirement Effective Dates</b>					
<b><u>July 1, 2000 to June 30, 2001</u></b>					
Avg. Monthly Benefit	376.93	545.15	998.32	1,716.74	1,986.63
Avg. Monthly Final Average Salary	1,619.07	1,742.06	2,205.21	2,760.42	2,736.97
Number of Active Retirants	245	197	191	201	102
<b>Retirement Effective Dates</b>					
<b><u>July 1, 2000 to June 30, 2005</u></b>					
Avg. Monthly Benefit	378.05	566.30	852.02	1,610.38	1,998.33
Avg. Monthly Final Average Salary	1,800.02	1,946.19	2,226.28	2,770.34	2,976.46
Number of Active Retirants	1,156	980	910	1,115	470

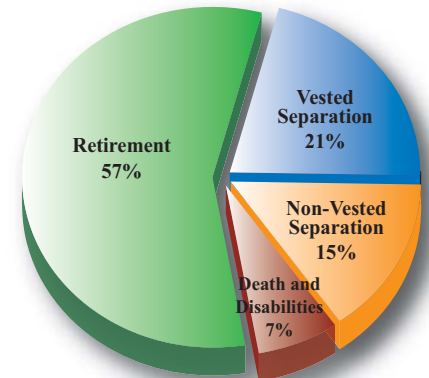
Statistical Graphs

As of June 30, 2005

Active Members Per Retired Life  
1985 Through 2005 Comparison



Expected Termination from Active Employment for Current Active Members



APERS Assets  
10 Year Summary\*  
(\$ in Billions)

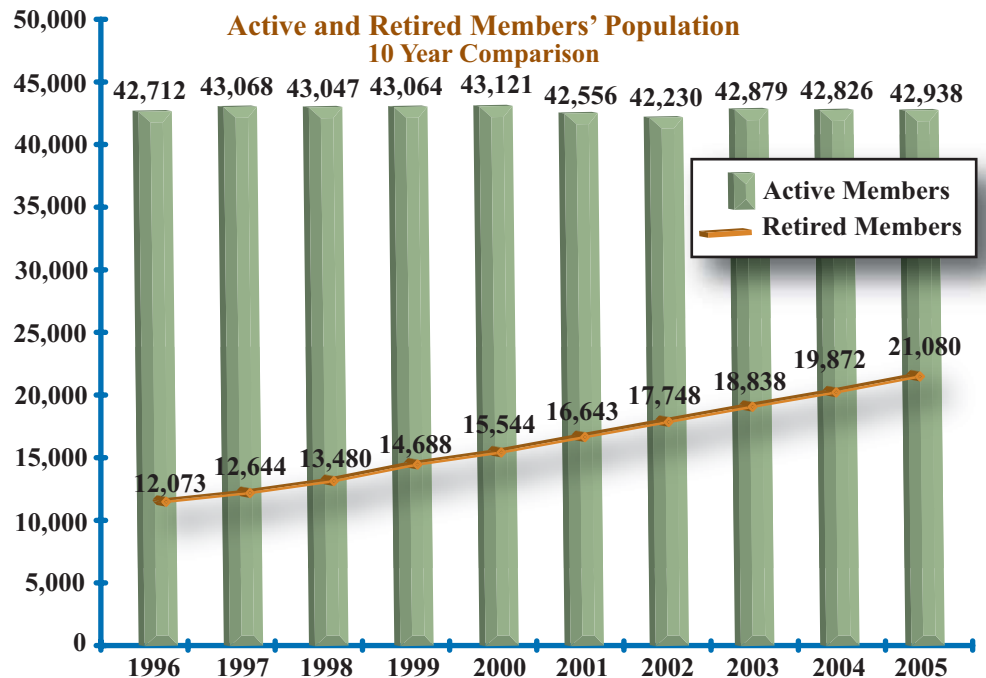


\*The figures listed above represent dollar amounts rounded to the nearest tens of millions.

Annuities Being Paid By Type



Active and Retired Members' Population  
10 Year Comparison



# Appendix

## *Appendix* APPENDIX

Schedule of Participating Employers





*This Page Intentionally Left Blank*

<p>Schedule of Participating Employers As of June 30, 2005</p>
--

### State Agencies

Abstractor's Board of Examiners	Boone County Conservation District	Drug Task Force - Batesville
Administrative Office of The Courts	Buffalo Conservation District	Drug Task Force - Monticello
Administrative Office of the Courts-Director	Building Authority	East Arkansas Community College
Arkansas Crime Information Center	Burial Association Board	Educational Television Commission
Arkansas Economic Development Commission	Calhoun County Conservation District	Employment Security Division
Arkansas Public Defender Commission	Capitol Zoning District Commission	Examiners in Psychology
Arkansas Tobacco Settlement Commission	Carroll County Conservation District	Faulkner County Conservation District
Arkansas Fair Housing Commission	Chicot County Conservation District	Fire Protection Licensing Board
Arkansas Dept. of Environmental Quality	Claims Commission	Forestry Commission
Arkansas Appraisers Licensing/Certification.	Clark County Conservation District	Franklin County Conservation District
Arkansas County Conservation District	Clay County Conservation District	Fulton County Conservation District
Arkansas Ethics Commission	Cleburne County Conservation District	Garland County Conservation District
Arkansas Heritage	Code Revision Commission	Game & Fish Commission
Arkansas Minority Health Commission	Constitutional Officers	Game & Fish Commission - Wildlife Officer
Arkansas Northeastern College	Contractors Licensing Board	General Assembly - House
Arkansas Sentencing Commission	Conway County Conservation District	General Assembly - Senate
Arkansas State Athletic Commission	Cossatot Community College - University of	Geological Commission
Arkansas State Board of Massage Therapy	Arkansas	Governor's Office
Arkansas State Board of Optometry	Cossatot Conservation District	Grant County Conservation District
Arkansas State Capitol Police	Court of Appeals	Greene County Conservation District
Arkansas State Library	Court Reporters	Hempstead County Soil Conservation
Arkansas State University	Craighead County Conservation District	Henderson State University
Arkansas State University - Beebe	Crawford County Conservation District	History Commission
Arkansas State University-Mountain Home	Crittenden County Conservation District	Hot Spring County Conservation District
Arkansas State University-Newport	Crooked Creek Conservation District	House Speaker's Office
Arkansas Tech University	Cross County Conservation District	Independence County Conservation District
Arkansas Tobacco Control Board	Crowley's Ridge Technical Institute	Insurance Department
Arkansas Towing & Recovery Board	Dallas County Conservation District	Izard County Conservation District
Arkansas Transitional Employment Board	Department of Aeronautics	Jackson County Conservation District
Ashley County Conservation District	Department of Community Correction	Jefferson County Conservation District
Assessment Coordination Department	Department of Corrections	Johnson County Conservation District
Attorney General	Department of Emergency Management	Judicial Discipline/Disability Commission
Auctioneers Licensing Board	Department of Finance & Administration	Lafayette County Conservation District
Auditor of State	Department of Health	Law Enforcement Standards
Baxter County Conservation District	Department of Higher Education	Lawrence County Conservation District
Board of Examiners in Speech, Language & Pathology	Department of Human Services	Lee County Conservation District
Benton County Conservation District	Department of Information Systems	Legislative Council
Board of Accountancy	Department of Labor	Lieutenant Governor
Board of Architects	Deputy Prosecuting Attorney	Lincoln County Conservation District
Board of Barber Examiners	Desha County Conservation District	Liquified Petroleum Gas Division
Board of Chiropractic Examiners	Development Finance Authority	Little River Conservation District
Board of Collection Agencies	Dietetic Licensing Board	Livestock & Poultry Commission
Board of Cosmetology	Disability Determination for Social Security Administration	Logan County Conservation District
Board of Dental Examiners	Disabled Veterans Service	Lonoke County Conservation District
Board of Dispensing Opticians	Division of Legislative Audit	Madison County Conservation District
Board of Embalmers and Funeral Directors	Drug Task Force - 1st & 3rd Judicial Districts	Manufactured Home Commission
Board of Examiners in Counseling	Drug Task Force - 5th Judicial District	Martin Luther King Jr. Commission
Board of Nursing	Drug Task Force - 8th Judicial District	Medical Board
Board of Pharmacy	Drug Task Force - 13th Judicial District	Miller County Conservation District
Board of Physical Therapy	Drug Task Force - 14th Judicial District	Mine Creek Conservation District
Board of Registry for Professional Geologists	Drug Task Force - 15th Judicial District	Mississippi County Conservation District
Board of Registry for Progress Engineers	Drug Task Force - 18th W. Judicial District	Monroe County Conservation District

(Continued)

## State Agencies (Continued)

Montgomery 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  
 Prosecuting Attorney  
 Prosecutor Coordinator  
 Public Employees Retirement System  
 Public Service Commission  
 Pulaski County Conservation District  
 Pulaski Technical College  
 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  
 Desha  
 Drew  
 East Central Arkansas Regional Library  
 Faulkner  
 Franklin  
 Fulton  
 Garland  
 Grant  
 Grassy Lake-Tyroneza Drainage  
 Greene  
 Hempstead  
 Hot Spring  
 Howard  
 Independence  
 Izard  
 Jackson  
 Jefferson  
 Johnson  
 Lafayette  
 Lawrence  
 Lee  
 Lincoln  
 Little River  
 Logan  
 Lonoke  
 Madison  
 Marion  
 Miller  
 Mississippi  
 Monroe

(Continued)

## County Employers (Continued)

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  
 Benton Co. West District Court Clerk's Office  
 Bentonville  
 Berryville District Court Clerk's Office  
 Bethel Heights  
 Biscoe  
 Blytheville District Court Clerk's Office  
 Bono  
 Booneville District Court Clerk's Office  
 Bradford  
 Bradford Water & Sewer System  
 Brinkley  
 Brinkley Municipal Water & Sewer Service  
 Bryant  
 Cabot  
 Caddo Valley  
 Calico Rock  
 Camden District Court Clerk's Office  
 Camden Water & Utilities  
 Cammack Village  
 Carlisle  
 Cave City  
 Central Arkansas Water  
 Charleston  
 Cherry Valley  
 Clarendon District Court Clerk's Office  
 Clarksville  
 Clinton  
 Clinton Water & Sewer  
 Conway District Court Clerk's Office  
 Corning  
 Cotter  
 Crossett  
 Crossett Public Library  
 Crossett Water Commission  
 DeQueen District Court Clerk's Office  
 Dermott District Court Clerk's Office  
 Des Arc  
 Devalls Bluff District Court Clerk's Office  
 Dewitt District Court Clerk's Office  
 Dierks  
 Dover  
 Dumas District Court Clerk's Office  
 East Camden District Court Clerk's Office  
 El Dorado Water Works  
 Elkins District Court Clerk's Office  
 Elm Springs  
 England  
 Eudora  
 Eureka Springs District Court Clerk's Office  
 Farmington  
 Fayetteville District Court Clerk's Office  
 Flippin  
 Fordyce  
 Fordyce Water & Sewer  
 Foreman  
 Forrest City  
 Forrest City Water Utilities  
 Fort Smith District Court Clerk's Office  
 Fort Smith Public Library  
 Fountain Hill  
 Fulton  
 Gassville  
 Gravette  
 Green Forest  
 Gum Springs  
 Hackett  
 Hamburg  
 Hampton  
 Hardy  
 Harrisburg  
 Harrisburg Water & Gas Division  
 Harrison  
 Haskell  
 Hazen  
 Heber Springs  
 Helena District Court Clerk's Office  
 Highfill  
 Holly Grove  
 Hope  
 Hope Water & Light  
 Horatio  
 Hot Springs  
 Hot Springs Advertising & Promotion  
 Commission  
 Hoxie District Court Clerk's Office  
 Humnoke  
 Huntington  
 Huntsville  
 Huntsville Water & Sewer  
 Huttig  
 Jacksonville  
 Jacksonville Wastewater Utility  
 Jacksonville Water Commission  
 Jasper  
 Kibler  
 Lake Village District Court Clerk's Office

(Continued)

## Municipal Employers (Continued)

Lamar  
 Lepanto  
 Lewisville  
 Lincoln  
 Little Rock District Court Clerk's Office  
 Lockesburg  
 Lonoke District Court Clerk's Office  
 Lowell  
 Little Rock Wastewater Utility  
 Magnolia  
 Magnolia Municipal Water System  
 Magnolia Sewer Department  
 Malvern  
 Malvern Waterworks  
 Mammoth Spring  
 Marion District Court Clerk's Office  
 Marked Tree  
 Marshall  
 Marvell  
 Maumelle District Court Clerk's Office  
 McCrory District Court Clerk's Office  
 McGehee District Court Clerk's Office  
 McGehee Water & Sewer System  
 McRae  
 Melbourne  
 Mena  
 Mena Water & Sewer  
 Monette  
 Monticello  
 Morrilton  
 Mount Ida  
 Mountain Home  
 Mountain Pine  
 Mountain View  
 Mt. Pleasant  
 Nashville  
 Newport District Court Clerk's Office  
 Norman  
 North Little Rock Advertising & Promotion  
 Commission  
 North Little Rock District Court Clerk's Office  
 Ola  
 Osceola District Court Clerk's Office  
 Ozark District Court Clerk's Office  
 Pangburn  
 Paragould  
 Paris  
 Perry County District Court Clerk's Office  
 Perryville  
 Piggott  
 Piggott Light & Water System  
 Pine Bluff District Court Clerk's Office  
 Plumerville  
 Prairie Grove  
 Prescott

Quitman  
 Ravenden  
 Rison  
 Rogers  
 Rogers Water Utilities  
 Russellville  
 Salem  
 Searcy  
 Shannon Hills  
 Sheridan  
 Sherwood District Court Clerk's Office  
 Shirley  
 Siloam Springs District Court Clerk's Office  
 Smackover  
 Springdale District Court Clerk's Office  
 Stamps  
 Star City  
 Star City Water & Sewer  
 Stuttgart  
 Stuttgart & North Arkansas County Library  
 Summit  
 Texarkana District Court Clerk's Office  
 Trumann District Court Clerk's Office  
 Tyronza District Court Clerk's Office  
 Van Buren  
 Van Buren Municipal Utilities  
 Vilonia Waterworks Association  
 Viola  
 Walnut Ridge District Court Clerk's Office  
 Ward  
 Warren  
 Warren Water & Sewer  
 West Fork  
 Western Grove  
 West Helena District Court Clerk's Office  
 West Memphis District Court Clerk's Office  
 Wilmar  
 Wrightsville District Court Clerk's Office  
 Wynne  
 Wynne Municipal Water Utilities  
 Yellville

## School Employers

Alma  
 Alpena  
 Altheimer Unified  
 Arkadelphia  
 Ashdown  
 Atkins  
 Augusta  
 Bald Knob  
 Barton Lexa  
 Batesville  
 Bauxite  
 Bay Brown  
 Bearden  
 Beebe  
 Benton  
 Bentonville  
 Bergman  
 Berryville  
 Bismarck  
 Black Rock  
 Blevins  
 Blytheville  
 Booneville  
 Bradford  
 Bradley  
 Brinkley  
 Brookland  
 Bryant  
 Cabot  
 Caddo Hills  
 Calico Rock  
 Cedar Ridge  
 Cedarville  
 Centerpoint  
 Clarendon  
 Clarksville  
 Clinton  
 Concord  
 Conway  
 Corning  
 Cotter  
 Cross County  
 Crossett  
 Cushman  
 Cutter Morning Star  
 Danville  
 Dardanelle  
 Decatur  
 Deer  
 Delta Special  
 DeQueen  
 Dermott Special  
 Des Arc  
 DeValls Bluff

(Continued)

## School Employers (Continued)

DeWitt/Gillett	Lakeside - Chicot County	Russellville
Dollarway	Lamar	Salem Consolidated
Dover	Lavaca	Scranton
Drew Central	Lead Hill	Searcy
Dumas	Lee County	Searcy County
Earle	Lincoln Consolidated	Sheridan
East Poinsett County	Little Rock	Shirley
El Dorado	Lonoke	Siloam Springs
Elaine	Magazine	Sloan-Hendrix
Emerson	Magnet Cove	Smackover
England	Magnolia	South Central Service Cooperative
Eudora	Malvern	South Conway County
Fairview	Mansfield	South Mississippi County
Farmington	Marion	South Side
Fayetteville	Marked Tree	Sparkman
Flippin	Marvell	Springdale
Fordyce	Maynard	Star City
Foreman	McCrary	Stephens
Forrest City	Melbourne	Strong
Fort Smith	Mena	Stuttgart
Fouke	Midland	Taylor
Fountain Lake	Mineral Springs	Texarkana
Genoa Central	Monticello	Trumann
Gentry	Mount Vernon-Enola	Turrell
Glen Rose	Mountain Home	Twin Rivers
Gosnell	Mountain View	Two Rivers
Green Forest	Mountainburg	Valley Springs
Greenbrier	Mulberry	Valley View
Greene County Tech	Murfreesboro	Van Buren
Greenwood	Nashville	Van Cove
Gurdon	Nettleton	Vilonia
Hamburg	Nevada	Viola
Harrisburg	Newport Special	Waldron
Harrison	Norfolk	Walnut Ridge
Hartford	Norphlet	Warren
Hazen	North Little Rock	Watson Chapel
Heber Springs	Omaha	Weiner
Hector	Osceola	West Memphis
Helena-West Helena	Ouachita River	West Memphis Cafeteria
Hermitage	Ozark	West Side
Highland	Ozark Mountain	Western Yell County
Hope	Palestine-Wheatley	Westside
Horatio	Paragould	Westside Consolidated
Hot Springs	Paris	White County Central
Hoxie	Pea Ridge	White Hall
Huntsville	Piggott	Wickes
Izard County Consolidated	Pine Bluff	Wonderview
Jackson County Schools	Pocahontas	Woodlawn
Jasper	Pottsville	Wynne
Jessieville	Prescott	Yellville Summit
Jonesboro	Pulaski County Special	
Junction City	Quitman	
Lafayette County	Rector School District	
Lake Hamilton	Riverview	
Lakeside - Garland County	Rogers	

(Continued)

## 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  
Paron-Owensville Water Authority  
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 Assoc.  
Southwest Boone County Water Association  
Tri-County Solid Waste  
Upper SW Arkansas Solid Waste Management District  
Washington Water Authority  
Paragould Housing Authority  
Northeast Arkansas Regional Solid Waste

---

### Number of Participating Employers As of June 30, 2005

State Agencies	242
County Agencies	85
Municipal Agencies	200
School Employers	213
Other Non-State Agencies	20

---

**Arkansas Public Employees Retirement System**

124 West Capitol Avenue, Suite 400

Little Rock, AR 72201

501-682-7800 or 1-800-682-7377

[www.apers.org](http://www.apers.org)