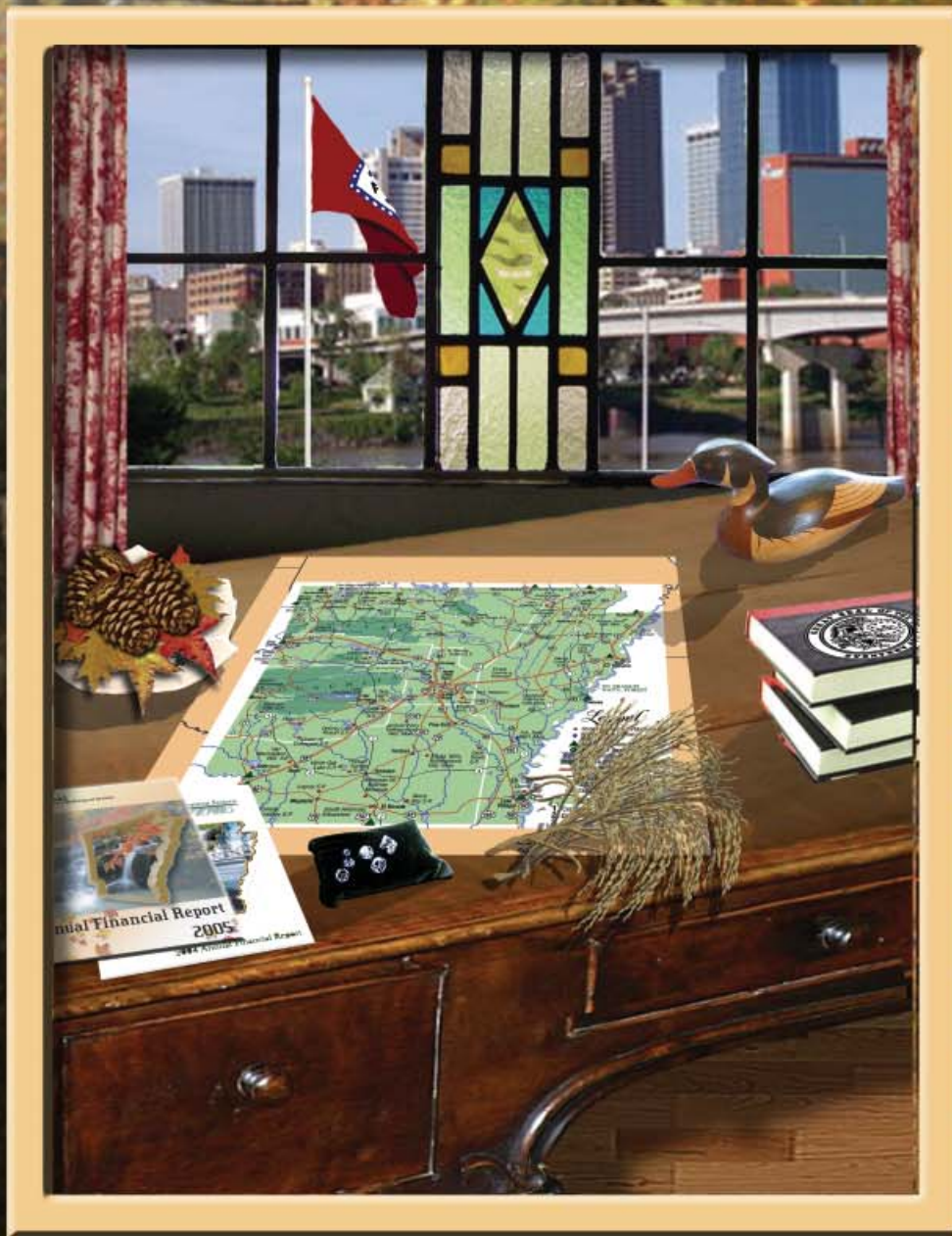


Arkansas

Public Employees Retirement System



Comprehensive Annual Financial Report
2006

ARKANSAS

PUBLIC EMPLOYEES RETIREMENT SYSTEM

A Pension Trust Fund of the State of Arkansas

Comprehensive
Annual Financial Report

For the Year Ended
June 30, 2006

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
2006 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)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

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Introduction



The New Contributory Plan
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



"Fall Colors"

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The New Contributory Program - First Year Status

On June 30, 2006, the Arkansas Public Employees Retirement System completed the first full Fiscal Year of operations under the new Contributory retirement program. Act 2084 of 2005 officially started the program July 1, 2005, for all APERS members hired on or after that date by APERS employers. Current Non-contributory members were given until Dec. 31, 2005, to decide to join the new Contributory program, or to remain Non-Contributory members the rest of their careers. All members (new hires and former Non-contributory employees) who enrolled in the new Contributory program began contributing 5% of their monthly income, pre-tax.

A review of APERS statistics revealed APERS enrolled 8,824 members in the Contributory program from July 1, 2005, through June 30, 2006. Of that number, 6,298 members remained active as of June 30, 2006, so 2,526 APERS members separated from employment - or left for other reasons - by the end of FY 2006.

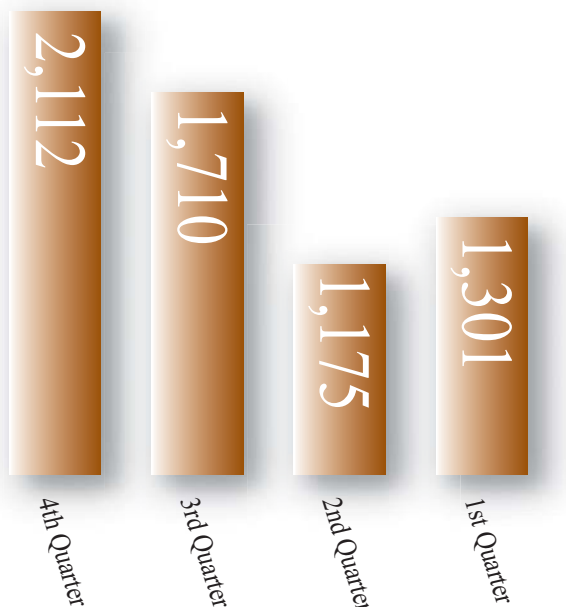
A total of 901 Non-Contributory members converted to the new Contributory system by Dec. 31, 2005. After that deadline, Non-contributory members had no option but to remain in the retirement program (either Contributory or Non-Contributory) they chose by that date.

Currently the APERS system still employs a much larger number of Non-contributory members - 35,647 as of July 1, 2006. But obviously the number of Contributory members will continue growing while the number of Non-contributory members gradually decreases as they retire or separate from employment. The APERS system processed retirements of 1,710 members by the end of FY 06; the majority of these retirees were Non-Contributory members.

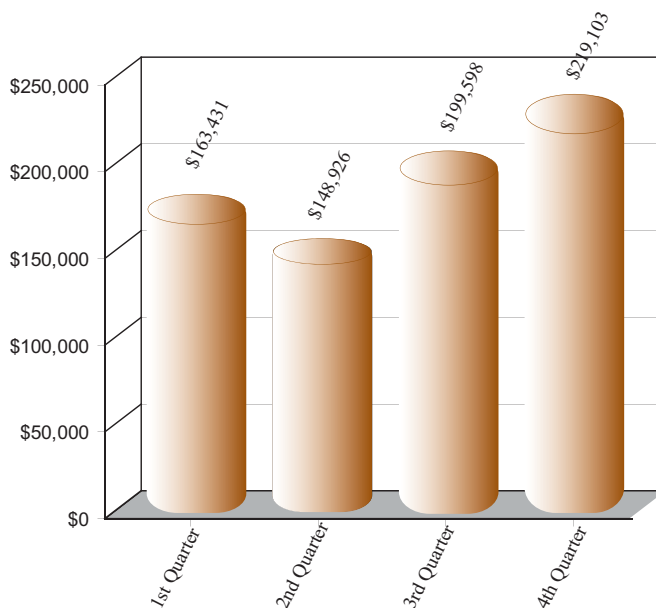
The Contributory program's goal is to help ensure the long-term solvency of the retirement system through additional payroll contributions of the new hires. The APERS Information Services department reported that all Contributory program enrollees in FY 2006 contributed \$731,058 in contributions through FY 06. This report did not reflect how much contributions were refunded to new Contributory members who left APERS employment the first year. Contributory members who leave APERS employment can opt for a refund of their contributions if they have not already started receiving an APERS retirement annuity.

Following are charts showing new hires who remained active members at the end of Fiscal Year 2006, and their payroll contributions into the APERS system, by quarter, in the fiscal year:

New Hires Into the New APERS Contributory Program
1st Quarter through 4th Quarter - 1 July 2005-30 June 2006



Contributions Paid By New Hires to the APERS System
1st Quarter through 4th Quarter - 1 July 2005-30 June 2006





Arkansas Public Employees Retirement System

124 West Capitol • Suite 400 • Little Rock, Arkansas 72201

December 15, 2006

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 2006 Annual Financial Report of the Arkansas Public Employees Retirement System ("APERS" or the "System") for the fiscal year ended June 30, 2006. 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, 2006. 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 6.82%. 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 12.24% rate of return which, when adjusted for asset allocation, placed APERS in the top quartile of performance over the last four years in a peer universe comparison. As anticipated, the funding status of the retirement system moved up to 84% in fiscal 2006 from 82% in 2005. With the enactment in 2005 of the new employee contributory provisions, the system has enjoyed improved cash flow. Over 20% of the APERS membership are contributory employees. As the number increases the financial underpinnings of the will become even stronger.

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 2006 totaled approximately \$718.8 million (see Table 1).

The overall additions increased approximately \$172.9 million compared to those of fiscal year 2005 due primarily to higher investment earnings and higher employee and employers' contributions. The Investment Section of this report reviews activity and the results of the investment portfolio for fiscal year 2006. The net assets of the System were \$5.1 billion on June 30, 2006, an increase of approximately \$494.7 million from 2005.

TABLE 1.	
OPERATING ADDITIONS	
Employer contributions	\$158,152,183
Employee contributions	4,667,067
Investment earnings	545,321,895
Miscellaneous additions	<u>10,630,255</u>
TOTAL	<u>\$718,771,400</u>

DEDUCTIONS

The primary deductions of the System included the payment of benefits to members and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement system. Deductions for fiscal year 2006 totaled approximately \$224 million (see Table 2), an increase of approximately 5.7% over fiscal year 2005 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 \$494.7 million during fiscal year 2006.

TABLE 2.	
OPERATING DEDUCTIONS	
Benefit payments	\$219,711,792
Refunds of contributions	62,133
Administrative expenses	<u>4,272,313</u>
TOTAL	<u>\$224,046,238</u>

FUNDING

A pension fund is well funded when it has enough money in reserve to meet all earned future obligations to participants. The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater level of investment potential. The advantage of a well-funded plan is that the participants can be assured that sufficient assets exist which are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of the System as of June 30, 2006, amounted to \$987 million and \$4.9 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 2006, investments provided a 12.24% rate of return. The System's annualized rate of return over the last three years was approximately 11.82%.

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

124 West Capitol • Suite 400 • Little Rock, Arkansas 72201

December 15, 2006

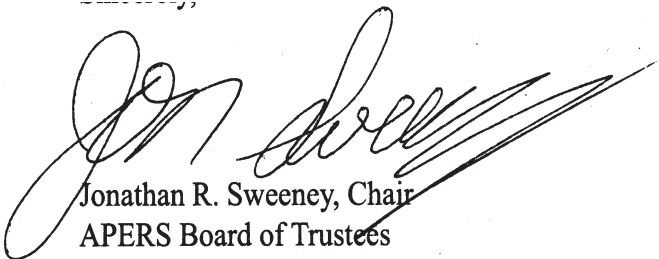
Dear Members:

On behalf of the Board of Trustees, I am pleased to present the APERS Annual Financial Report for the fiscal year ending June 30, 2006. 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.

Along with disappointing news about the difficult prosecution of the Iraq war, and the burgeoning federal deficit, the major theme that played out in the financial markets was energy. Crude oil hit an eye-popping \$77 in early March on fears of supply interruptions. However, as it became apparent that these fears were unfounded, oil prices dropped by more than 30% in the final quarter of the fiscal year. Such a drop pulled markets down with it, thereby trimming the system's earnings over the last six weeks of the quarter. Even so, APERS still enjoyed a healthy 12.24% return for the fiscal year. This easily exceeded our customized benchmark of 9.99% as well as our actuarial return assumption of 8.00%.

Where fiscal 2005 found us making wholesale changes to our investment manager lineup, fiscal 2006 was about sitting back and watching our multi-capitalization strategies develop and grow. We are well-pleased to have been in the vanguard in embracing these new approaches to investing and anticipate further such elaboration in the future. We certainly applaud our managers for their strong and steady performance in today's marketplace.

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.

-----,,

Jonathan R. Sweeney, 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, 2006

ACTIVE MEMBERS	
Number	43,430
Average Age	44.5 years
Average Years	9.5 years
Average Annual Salary	\$29,167
INACTIVE VESTED MEMBERS	
Number	10,824

2006 RETIRED MEMBERS		
	Age and Service	Disability
Retired Members	1,126	85
Average Age	61.5 years	52.8 years
Average Years of Service	17.5 years	16.3 years
Average Monthly Benefit	\$806	\$637
TOTAL RETIREES		
Retired Members#	22,234	
Average Monthly Benefit	\$955	

Includes DROP participants.

Board of Trustees

Board Members

Expiration of Term

Mr. Jonathan R. Sweeney, Chair

March 9, 2007

Deputy Director, Arkansas Natural Resources Commission

State Employee Representative

Mr. Don Zimmerman, Vice Chair

March 9, 2010

Executive Director, Arkansas Municipal League

Municipal Employee Representative

The Honorable Gus Wingfield

Ex Officio Member

State Treasurer

The Honorable Jim Wood

Ex Officio Member

State Auditor

Mr. Richard Weiss

Ex Officio Member

Director, Department of Finance and Administration

The Honorable Larry Fratesi

March 9, 2009

Jefferson County Assessor

County Employee Representative

Ms. Ouida Wright (Retired)

March 9, 2011

Conway, AR

Retired Employee Representative

Mr. Maurice Henry

March 9, 2012

Hope Public Schools

School Employee Representative

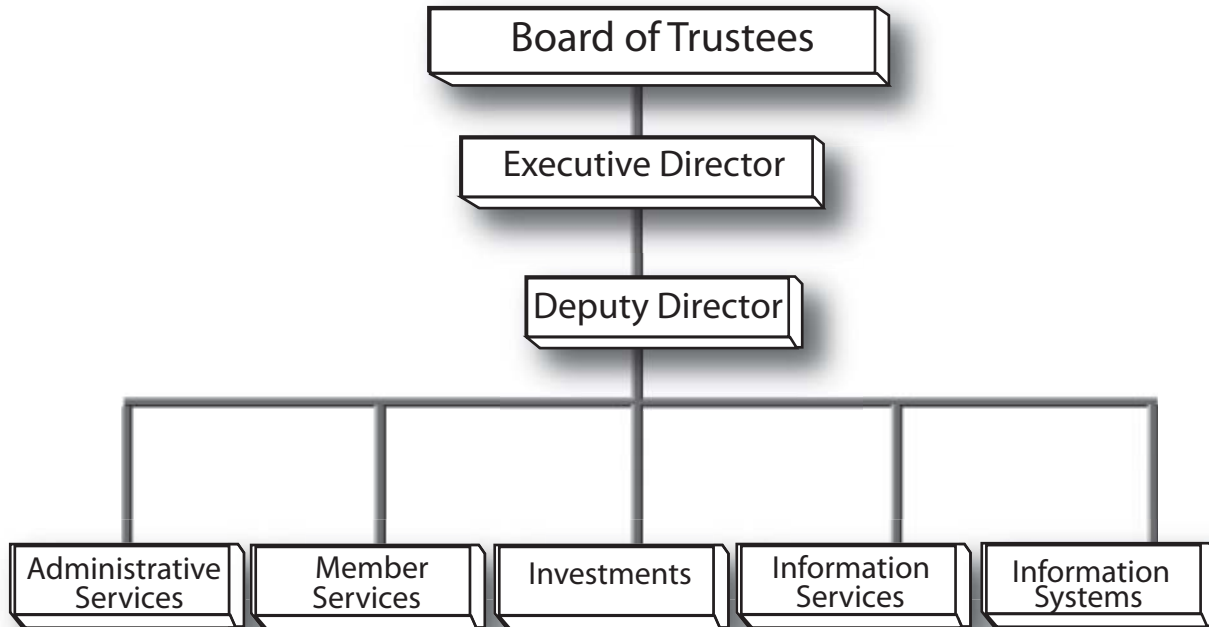
Mr. Artee Williams

March 9, 2008

Executive Director, Department of Workforce Services

State Employee Representative

Organizational Chart



Administrative Staff

Gail Stone	Executive Director
Michele Williams	Deputy Director
Susan Bowers	Associate Director, Investments
Becky Walker	Administrative Services Manager
Jackie Parrish	Member Service 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.
300 Galleria Parkway, Suite 950
Atlanta, GA 30339

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

Pinnacle Forest Investments, LLC

650 South Shackleford Road, Suite 400
Little Rock, AR 72211

Aberdeen Asset Management

1735 Market Street, 37th Floor
Philadelphia, PA 19103

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

PT Timber, Inc.

99 High Street
Boston, MA 02110

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Financial



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 Policies

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



"Little Rock Skyline"

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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Lavery
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, 2006, 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, 2006, 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, 2006, 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 22, 2006 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 2005-2006 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

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 22, 2006

Statement of Plan Net Assets

June 30, 2006 and 2005

ASSETS	2006	2005
Cash and Cash Equivalents	\$ 158,991,030	\$ 219,020,715
Securities Lending Collateral Investments in Cash Equivalents (Notes 3 & 5)	212,092,651	243,612,095
Receivables:		
Contributions	2,035,881	1,792,097
Investment Principal Receivable	54,790,845	58,571,420
Accrued Investment Income Receivable	<u>15,220,280</u>	<u>13,966,733</u>
Total Receivables	72,047,006	74,330,250
Investments At Fair Value (Notes 3, 4 & 5)		
Government Securities:		
U.S. Government Securities	115,440,837	86,605,545
Government Agency Securities	326,746,744	352,704,738
Corporate Securities:		
Collateralized Obligations	183,021,390	106,052,354
Corporate Bonds	230,607,819	274,794,448
Convertible Bonds	147,675,495	132,266,649
Convertible Preferred Stock	39,702,470	43,012,269
Common Stock	1,715,828,326	1,559,574,683
Equity Index Funds	473,010,696	444,471,708
Equity Co-Mingled	219,480,329	202,400,000
High Yield Income Fund	36,029,790	37,565,408
Options	11,516	0
International Securities:		
Global Fixed Income Fund	3,175,181	0
Government Fixed Obligations	17,425,975	29,233,376
Corporate Fixed Income	2,940,003	2,845,698
Equity Securities	555,548,329	435,197,990
Equity Pooled Fund Units	537,557,356	440,473,830
Emerging Markets	38,531,509	40,493,043
Forward Contracts	(33,220)	0
Real Estate	191,333,954	157,623,725
Timberland	178,911,730	157,314,473
Municipal Bonds	14,549,990	20,336,671
Commercial Loans	<u>3,654,200</u>	<u>0</u>
Total Investments	5,031,150,419	4,522,966,608
Securities Lending Collateral Investments, At Fair Value (Notes 3 & 5):		
Corporate Bonds	346,630,656	214,978,659
Bank Obligations	79,978,514	74,980,224
Asset Backed Securities	<u>0</u>	<u>117,931,027</u>
Total Securities Lending Collateral Investments	426,609,170	407,889,910
Prepays and Other Assets	1,820,827	1,920,368
Fixed Assets, Net	<u>49,820</u>	<u>53,101</u>
TOTAL ASSETS	5,902,760,923	5,469,793,047
LIABILITIES		
Accrued Expenses and Other Liabilities	6,941,948	7,119,251
Investment Principal Payable	121,614,009	170,393,808
Securities Lending Liability	<u>638,701,821</u>	<u>651,502,005</u>
TOTAL LIABILITIES	767,257,778	829,015,064
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Note 6)	<u>\$5,135,503,145</u>	<u>\$4,640,777,983</u>

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

Statement of

Changes In Plan Net Assets

June 30, 2006 and 2005

ADDITIONS	2006	2005
Contributions		
Employer	\$ 158,152,183	\$ 135,027,446
Plan Members	<u>4,667,067</u>	<u>82,836</u>
Total Contributions	162,819,250	135,110,282
Investment Income:		
Interest	57,891,121	54,121,820
Dividends	48,523,187	39,555,587
Net Appreciation in Fair Value of Plan Investment	459,105,415	323,251,610
Security Lending Income	29,271,062	16,405,504
Real Estate Income	(2,640,933)	(1,760,716)
Other	<u>3,940</u>	<u>0</u>
Total Investment Income	592,153,792	431,573,805
Less: Investment Expense	<u>46,831,897</u>	<u>30,144,273</u>
Net Investment Income	545,321,895	401,429,532
Other Sources:		
Miscellaneous Additions	3,837,040	2,598,877
Transfer from Teachers Retirement System	6,665,441	6,571,195
Miscellaneous Transfers from State Agencies	<u>127,774</u>	<u>183,983</u>
Total Other Additions	10,630,255	9,354,055
TOTAL ADDITIONS	718,771,400	545,893,869
DEDUCTIONS		
Benefits	219,711,792	207,122,449
Refunds of Contributions	62,133	526,398
Administrative Expenses	<u>4,272,313</u>	<u>4,313,081</u>
TOTAL DEDUCTIONS	224,046,238	211,961,928
NET INCREASE	494,725,162	333,931,941
NET ASSETS (Note 6)		
Beginning of Year	<u>4,640,777,983</u>	<u>4,306,846,042</u>
End of Year	<u>\$5,135,503,145</u>	<u>\$4,640,777,983</u>

See Notes to Financial Statements

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 Annotated, as Amended, Title 24, Chapter 4, with related laws in Chapter 2 and Chapter 7.

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 Arkansas 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, 2006 and 2005, the number of participating employers was as follows:

	<u>2006</u>	<u>2005</u>
State	243	242
County	86	85
Municipal	201	200
School	201	213
Other Non-State	<u>23</u>	<u>20</u>
Total	<u>754</u>	<u>760</u>

As of June 30, 2006 and 2005, membership was as follows:

Retirees and beneficiaries receiving benefits (includes DROP participants)	22,234	21,080
Terminated plan members entitled to but not receiving benefits	10,284	10,250
Active plan members	43,453	42,938

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.

Act 2084, enacted by the 2005 General Assembly, directed APERS to establish a new Contributory plan 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.

Members may have employee contributions in the system if: 1.) They were a member of APERS on or before Jan. 1, 1978; 2.) They are a member first hired after July 1, 2005, or 3.) They purchased service in the System.

Employee contributions are refundable if APERS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with APERS earn interest credits (4% per year), 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.

Employee refunds do not include contributions made by employers. Employer contribution rates during the fiscal year ending June 30, 2006 and 2005, are as follows:

Employer Contribution Rates		
	<u>2006</u>	<u>2005</u>
State Division	12.54%	11.09%
Wildlife Subdivision	22.00%	22.00%
State Capitol Police Subdivision	12.54%	11.09%
Administrative Offices of the Courts Subdivision	12.00%	12.00%
County Division	12.54%	11.09%
Municipal Division	12.54%	11.09%
School Division	4.00%	4.00%

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 old contributory plan (prior to 7/1/05), at age sixty (60) with twenty (20) years of actual service, or 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, 2006 and 2005, APERS was confirmed as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.



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 \$158,991,030 at June 30, 2006. This total consisted of cash deposits with

financial institutions of \$1,280,597, STIF accounts in the amount of \$157,610,861, and \$99,372 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, 2006 none of the System’s bank balance of \$915,125 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 of 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, 2006, the System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Government Agency Securities	\$ 326,746,744
U.S. Government Securities	115,440,837
Convertible Bonds	147,675,496
Collateralized Obligations	183,021,390
Municipal Bonds	14,549,990
Convertible Preferred Stock	39,702,470
Domestic Stock	1,715,828,326
Domestic Equity Commingled	219,480,329
High Yield Income Fund	36,029,790
Real Estate	191,333,954
Timberland	178,911,730
Commercial Loans	3,654,200
Domestic Equity Index Funds	473,010,696
Corporate Bonds	230,607,819
International Government Fixed	17,425,975
Global Corporate Fixed	2,940,003
Global Fixed Income Bond Fund	3,175,180
Global Equity	555,548,329
International Equity Pooled Fund Units	537,557,356
Emerging Markets	38,531,509
Forward Contracts	(33,220)
Options	11,516
Total	<u>\$5,031,150,419</u>

<u>Securities Lending Collateral</u>	
U.S. Corporate Floating Rate	161,787,131
Asset Backed Security	186,161,707
Bank Notes	80,407,246
Certificates of Deposit Floating Rate	120,529,972
Time Deposits	30,006,642
Repurchase Agreements	62,159,874
Total	<u>641,052,572</u>
Total Investments	<u>\$5,672,202,991</u>

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 \$5,672,202,991 investments at June 30, 2006, there were no investments exposed to custodial credit risk.

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 Type	Fair Value	--- Investment Maturities (in years) ---			
		Less than 1	1 - 5	6 - 10	More than 10
US Government Securities	\$ 115,440,837	\$ 9,272,822	\$ 55,049,035	\$ 18,094,199	\$ 33,024,781
US Government Agency	326,746,744	1,309,247	29,972,643	26,751,461	268,713,393
Collateralized Obligations	183,021,390		8,806,362	9,830,058	164,384,970
Convertible Bonds	147,675,495	1,480,500	37,218,625	7,294,650	101,681,720
Corporate Bonds	230,607,819	15,950,419	79,405,744	67,192,415	68,059,241
High Yield Income Fund	36,029,790		14,881,757	21,148,033	
Emerging Markets Bond Fund	5,894,441				5,894,441
Emerging Markets	15,381,297		4,956,324	5,622,473	4,802,500
Global Fixed Income Bond Fund	3,175,180		3,175,180		
Global Corporate Fixed	2,940,003	1,096,094	658,454	789,340	396,115
Global Government Fixed	17,425,975	1,164,088	8,623,255	4,142,883	3,495,749
Global Emerging Markets	17,255,771	117,007	4,884,728	11,837,711	416,325
Commercial Loans	3,654,200			3,654,200	
Municipal Bonds	14,549,990	106,471	3,311,428	2,102,324	9,029,767
Total	\$1,119,798,932	\$30,496,648	\$250,943,535	\$178,459,747	\$659,899,002

Securities Lending Collateral	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Asset Backed Security	\$186,161,707	\$ 39,921,753	\$146,239,954		
Bank Notes	80,407,246		80,407,246		
Certificates of Deposit-Floaters	120,529,972	19,997,348	100,532,624		
Corporate Floating Rate	161,787,131		161,787,131		
Reverse Repurchase Agreements	62,159,874	62,159,874			
Time Deposits	30,006,642	30,006,642			
Total	\$641,052,572	\$152,085,617	\$488,966,955		

Mortgage-Backed Securities - As of June 30, 2006 the System held mortgage-backed securities of approximately \$245 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, 2006, 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, 2006 the System held asset-backed securities with a fair value of approximately \$40 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, 2006, the System held no asset-backed securities that were considered as highly sensitive to changes in interest rates.

Convertible Corporate Bonds - As of June 30, 2006, the System held convertible bonds with a fair value of approximately \$148 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, 2006, the System held the following securities that were considered highly sensitive to changes in interest rates.

Description	Trade Date	Market Value	Rate Calculation	Reset Date
ADC Telecom (FLT) 06/15/2013	06/01/2006	\$ 1,279,700	6-Month LIBOR + 0.375%	Semi-Annual
Bristol Myers (FLT) 09/15/2023	06/27/2006	1,422,328	3-Month LIBOR - 0.50%	Quarterly
Caesars Ent (FLT) 04/15/2024	10/14/2005	1,943,147	3-Month LIBOR	Quarterly
Lockheed Martin (FLT) 08/15/2033	10/26/2005	1,954,888	3-Month LIBOR - 0.25%	Quarterly
Prudential Financial (FLT) 11/15/2035	05/23/2006	1,757,272	3-Month LIBOR - 2.76%	Quarterly
SLM Corp (FLT) 07/25/2035	06/13/2006	1,437,982	3-Month LIBOR - 0.50%	Quarterly
Wells Fargo Co (FLT) 05/01/2033	06/13/2006	1,443,194	3-Month LIBOR - 0.25%	Quarterly
Wyeth (FLT) 01/15/2024	12/16/2003	<u>2,534,835</u>	6-Month LIBOR - 0.50%	Semi-Annual
		\$13,773,346		

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, 2006 was as follows:

Currency	%	Fair Value
Australian Dollar	3.02%	\$ 15,772,590
Brazilian Real	0.24%	1,270,467
British Pound Sterling	16.92%	88,332,574
Canadian Dollar	3.66%	19,129,663
Danish Krone	0.34%	1,795,641
Euro Currency	34.64%	180,894,214
Hong Kong Dollar	2.76%	14,423,190
Hungarian Forint	(0.04)%	(209,381)
Japanese Yen	26.49%	138,325,482
Mexican Nuevo Peso	0.06%	326,229
Norwegian Krone	0.00%	2,723
New Zealand Dollar	0.00%	2
Polish Zloty	(0.03)%	(161,892)
Renminbi Yuan	1.01%	5,249,287
Singapore Dollar	1.71%	8,914,596
South African Rand	1.10%	5,740,321
Swedish Krone	0.77%	4,032,353
Swiss Franc	7.34%	38,303,732
Total Fair Value	100.00%	\$522,141,791

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, 2006 the System had outstanding forward exchange currency contracts to sell foreign currencies in the amount of \$22,113,474. The market values of these outstanding contracts were \$22,257,313 at June 30, 2006, resulting in net loss of \$143,839. The System also had outstanding forward currency contracts to purchase foreign currency in the amount of \$3,429,495. The market values of these contracts were \$3,540,115 at June 30, 2006, resulting in net gain of \$110,620.

Pooled Funds - APERS has approximately \$543 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, 2006 is as follows:

<u>Standard & Poor's</u>	
<u>Rating</u>	<u>Fair Value</u>
AGY	\$294,108,692
AAA	196,005,004
AA	31,679,481
A	109,340,682
BBB	152,962,456
BB	56,028,813
B	40,135,278
CCC or below	6,553,289
Not Rated	<u>72,444,989</u>
Totals	<u>\$959,258,684</u>
<u>Securities Lending Collateral</u>	
AAA	186,161,707
AA	105,508,203
A	287,222,788
Not Rated	<u>62,159,874</u>
Totals	<u>\$641,052,572</u>

<u>Moody's Investor Service</u>	
<u>Rating</u>	<u>Fair Value</u>
AGY	\$280,859,355
Aaa	185,375,712
Aa	51,078,058
A	73,296,779
Baa	160,202,149
Ba	52,231,426
B	36,001,002
C or below	4,675,629
Not Rated	<u>115,538,574</u>
Totals	<u>\$959,258,684</u>
<u>Securities Lending Collateral</u>	
Aaa	186,161,707
Aa	247,953,564
A	94,773,437
P-1	50,003,990
Not Rated	<u>62,159,874</u>
Totals	<u>\$641,052,572</u>

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, 2006, there were no violations of the Agency Agreement. Certain securities of the trust fund are loaned to participating brokers. As of June 30, 2006, 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 28 days on June 30, 2006, whereas the weighted average loan maturity was 2 days. As of June 30, 2006, investments with cash collateral were approximately \$638 million.

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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, 2006 and 2005.

Divisions

Respective Reserve Balances

As of June 30, 2006 and 2005

2006 Reserve Balances

<u>June 30, 2006</u>	<u>State Division</u>		<u>Local Government Division</u>			<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>	<u>Non-State Employers</u>	
Members' Deposit Account	\$ 13,476,701	\$ 2,749,243	\$ 2,372,084	\$ 1,172,202	\$ 128,116	\$ 19,898,346
MDA Interest Reserve	1,737,231	199,209	156,183	211,422	9,312	2,313,357
Employer Accumulation Account	2,221,310,435	390,206,833	196,884,841	136,650,221	4,338,941	2,949,391,271
Retirement Reserve	1,211,819,045	305,895,636	119,849,398	203,915,561	1,160,275	1,842,639,915
Deferred Annuity	156,834,901	37,407,280	16,486,563	27,019,020	536,180	238,283,944
DROP Reserve	71,774,659	5,469,823	3,133,080	2,397,301	0	82,774,863
Delinquent Receivable Reserve	65	8	0	0	0	73
Refund Overpayment Receivable Reserve	351	0	0	0	0	351
Outlawed Warrants	78,797	7,036	2,849	11,145	0	99,827
Partial Purchase of Service Reserve	79,180	12,930	2,205	6,683	0	100,998
Partial Cash Reserve	200	0	0	0	0	200
Total	\$3,677,111,565	\$741,947,998	\$338,887,203	\$371,383,555	\$6,172,824	<u>\$5,135,503,145</u>

2005 Reserve Balances

<u>June 30, 2005</u>	<u>State Division</u>		<u>Local Government Division</u>			<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>	<u>Non-State Employers</u>	
Members' Deposit Account	\$ 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
Partial Cash Reserve	200	0	0	0	0	200
Total	\$3,321,519,862	\$663,397,570	\$297,138,091	\$353,772,756	\$4,949,704	<u>\$4,640,777,983</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.

Schedule of Employer Contributions

Fiscal Year	Annual Required Contribution	Percentage Contributed
1994	\$ 75,710,660	100%
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
2005	135,027,447	100
2006	158,152,183	100

See Note to Required Supplementary Information

Schedule of Funding Progress (Dollars in Millions)

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll (Millions)	(6) UAAL (Excess) As Percentage of Covered Payroll (3)/(5)
6/30/95	\$2,248	\$2,060	\$ (188)	109%	\$ 835	(22.5)%
6/30/96	2,522	2,291	(231)	110	889	(26.0)
6/30/97	2,876	2,607	(269)	110	939	(28.6)
6/30/98@#	3,297	2,921	(376)	113	975	(38.6)
6/30/99@	3,712	3,479	(233)	107	1,009	(23.1)
6/30/00	4,121	3,803	(318)	108	1,050	(30.3)
6/30/01@	4,342	4,111	(231)	106	1,070	(21.6)
6/30/02#	4,404	4,398	(6)	100	1,112	(0.5)
6/30/03#	4,416	4,674	258	95	1,148	22.5
6/30/04	4,438	5,005	567	89	1,176	48.2
6/30/05	4,584	5,323	739	86	1,215	60.8
6/30/05@#	4,584	5,619	1,035	82	1,215	85.2
6/30/06	4,949	5,936	987	83	1,267	77.9

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) and (2) may not add to UAAL due to rounding.

Notes 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, 2006
Actuarial Cost Method	Entry age
Amortization Method	19.3 years
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Investment consultant fee	\$ 159,120	\$ 153,000
Money manager fees	17,565,732	14,156,555
Custodian bank fees	682,994	571,599
International withholding taxes	1,424,407	819,279
Securities lending expenses	<u>26,999,644</u>	<u>14,443,840</u>
TOTAL INVESTMENT EXPENSE	<u>\$46,831,897</u>	<u>\$30,144,273</u>

Supporting Schedules

Schedule of Payments For Professional Consultants

For the Years Ended June 30, 2006 and 2005

	2006	2005
Gabriel, Roeder, Smith & Company	\$102,930	\$162,205
Other	<u>4,946</u>	<u>12,203</u>
Total Payments for Professional Consultants	<u>\$107,876</u>	<u>\$174,408</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, 2006 and 2005

	2006	2005
PERSONNEL SERVICES:		
Salaries and wages	\$2,034,485	\$1,913,335
Employee benefits	369,065	400,952
Insurance	231,374	188,184
Other	7,651	8,349
Total Personnel Services	<u>2,642,575</u>	<u>2,510,820</u>
COMMUNICATIONS:		
Postage	101,233	117,943
Telecommunications	25,961	37,058
Printing and advertising	28,894	46,578
Freight and Express	827	3,521
Subscriptions and publications	7,904	3,800
Total Communications	<u>164,819</u>	<u>208,900</u>
PURCHASES:		
Office Supplies	61,970	91,160
Equipment	17,440	84,294
Total Purchases	<u>79,410</u>	<u>175,454</u>
SERVICES AND CHARGES:		
Professional fees and services	107,876	174,408
Rent expense	457,547	346,896
Travel and conference fees	37,429	41,227
Taxes, licenses and permits	79	79
Repairing and servicing	58,776	77,499
Training fees	0	1,507
Insurance and surety bonds	4,513	4,246
Bank and federal service charges	28,405	28,862
Data processing charges	679,380	722,335
Claims commission expense	4,431	1,153
Total Services and Charges	<u>1,378,436</u>	<u>1,398,212</u>
DEPRECIATION EXPENSE	<u>7,073</u>	<u>19,695</u>
TOTAL ADMINISTRATION EXPENSES	<u>\$4,272,313</u>	<u>\$4,313,081</u>

Investments



Report on Investments

Outline of Investment Policies

Actual vs. Target Asset Allocation

Manager Distribution

Performance Comparisons

Fiscal Years 2002 through 2006

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



“Waterfalls”

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CALLAN ASSOCIATES^{INC}

Paul V. Troup III
Executive Vice President



August 30, 2006

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, 2006.

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, 2006, returns were stronger than fiscal year 2005. Alternative Investments and International stocks were the best performing asset classes. The NCREIF Index, a real estate benchmark, had an 18.6% return for the year while MSCI EAFE, an international index, rose 26.6%.

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 6/30/06 are listed below:

	<u>Target</u>	<u>Actual</u>
Domestic Equity	50%	50%
International Equity	18%	21%
Domestic Fixed	22%	20%
Other	0%	0%
Alternative Inv./Real Estate	10%	9%

For fiscal year ended 2006, the total fund rate of return, including gains, losses and income was 12.24%. The performance calculations presented above were prepared by the Systems' custodial bank using a time-weighted rate of return methodology based upon the market value of assets.

Over the past 5 years, the Fund has had an annualized return of 6.82%. 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 \$4.64 billion; at June 30, 2006, the Fund assets totaled \$5.13 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 large initial "P" and a small "III" at the end.

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:

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

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

Review Of Investment Process

A. On a timely basis, but not less than twice a year, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether:

1. The investment managers performed in adherence to the investment philosophy and policy guidelines; and
2. The investment managers performed satisfactorily when compared with the objectives set and other similarly managed funds.

B. In addition to reviewing each investment manager's results, the Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed-income and international equity segments objectives.

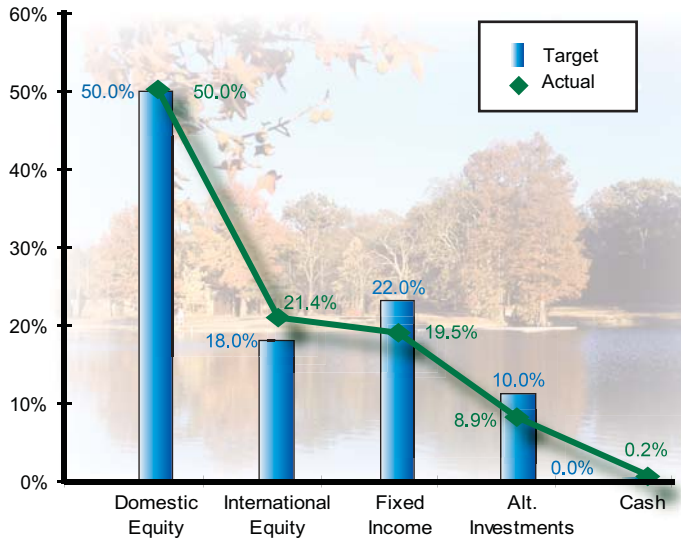
C. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of:

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

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

Actual Asset and Target Asset Allocation

For the Period Ended June 30, 2006



The graph to the left shows the Fund’s asset allocation as of June 30, 2006. The green line with diamonds represents the actual asset allocation; the blue bars represent the target asset allocation as outlined in the investment policy statement.

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

Asset Class (At Fair Value)	\$ 000s Actual	Percent Actual	Percent Target	Percent Difference	\$ 000s Difference
Domestic Equity	\$2,569,310	50.0%	50%	0.0%	\$ 818
International Equity	1,099,763	21.4	18	3.4	175,105
Fixed Income	999,503	19.5	22	(2.5)	(130,634)
Alt. Investments	455,573	8.9	10	(1.1)	(58,125)
Cash	12,836	0.2	0	0.2	12,836
Total	\$5,136,985	100.0%	100%		

Public Plan Sponsor Database

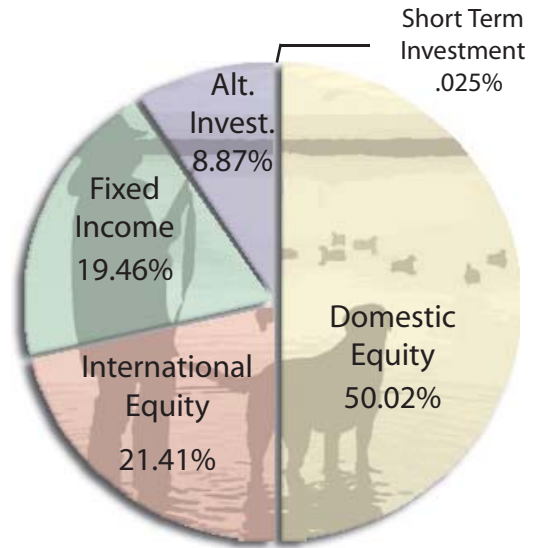
The illustration to the right shows the average percentage of asset allocations by asset type for the Public Plan Sponsor Database.



Manager Distribution

For The Period Ended June 30, 2006

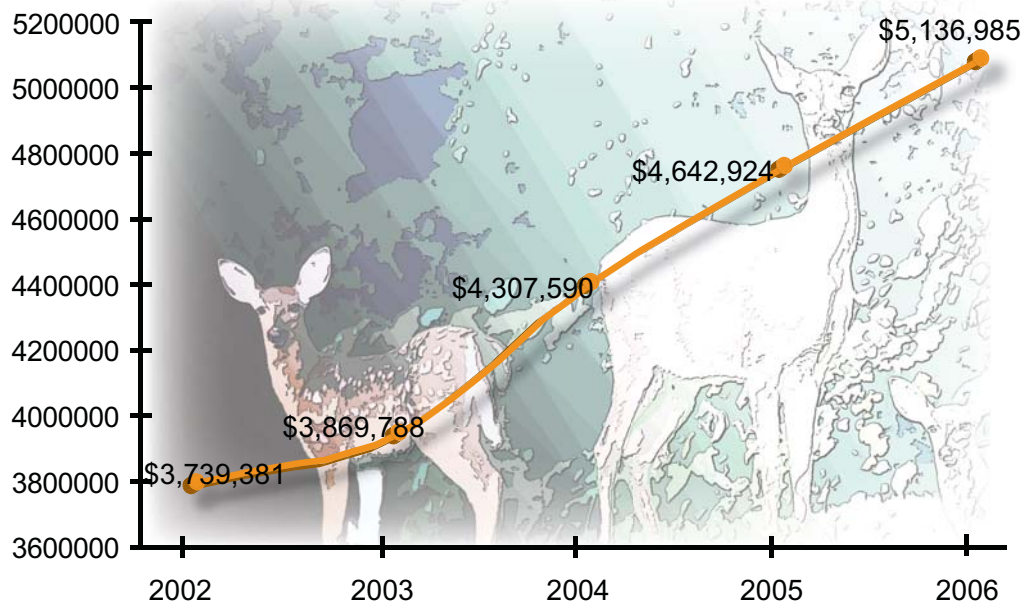
Asset Allocation	Market Value (\$Thousands)	Percent Of Total
Domestic Equity (\$2,569,310 - 50.02%)		
BNY S&P Index Fund	\$412,470	8.03%
Froley Revy	\$194,279	3.78%
INVESCO	\$233,552	4.55%
Lazard Asset Mgmt.	\$229,276	4.46%
Goldman Sachs	\$219,480	4.27%
BNY Russell 3000 Index	\$ 67,097	1.31%
INTECH	\$254,090	4.95%
Westwood Mgmt.	\$239,182	4.66%
J. & W. Seligman	\$184,000	3.58%
Wellington Mgmt. Co.	\$268,434	5.23%
CastleArk Management	\$267,450	5.21%
International Equity (\$1,099,763- 21.41%)		
RiverSource	\$562,206	10.95%
UBS Global Asset Mgmt.	\$537,557	10.46%
Fixed Income (\$999,503 - 19.46%)		
Aberdeen Asset Mgmt.	\$ 301,291	5.87%
MacKay Shields	\$ 397,348	7.73%
Prudential Investments	\$ 300,864	5.86%



Alternative Investments (\$455,573 - 8.87%)		
Pinnacle Forest Investments	\$ 170,684	3.32%
Hancock Timber	\$ 8,228	0.16%
INVESCO Realty Advisors	\$ 194,598	3.79%
INVESCO REITS	\$ 82,063	1.60%
Short-term Investment Fund		
	\$ 12,836	0.25%
COMPOSITE FUND	\$5,136,985	100.0%

Composite Fund Comparison

For the Years 2002-2006



Performance Comparison

For Fiscal Years Ended June 30

Fiscal Years Ended June 30	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Fund:					
Arkansas Public Employees Retirement System	12.24%	9.85%	13.40%	5.53 %	(5.74)%
Callan Total Public Fund Median	10.47	9.22	14.96	3.74	(5.36)
Inflation (Consumer Price Index)	4.47	2.59	3.17	2.10	0.74
Equities:					
Arkansas Public Employees Retirement System	10.61%	8.13%	20.21%	(0.19)%	(16.39)%
Callan Total Equity Database Median	11.63	9.52	23.54	(0.15)	(14.21)
Standard & Poor's 500 Index	8.63	6.32	19.11	0.25	(17.99)
International Equities:					
Arkansas Public Employees Retirement System	25.91%	13.19%	27.23%	(7.03)%	(5.93)%
Callan Total Non-US Equities Database Median	28.02	14.77	31.35	(6.03)	(7.88)
MSCI-EAFE Index	26.56	13.65	32.37	(6.46)	(9.49)
Fixed Income:					
Arkansas Public Employees Retirement System	0.20%	8.18%	2.41%	12.30 %	6.04 %
Callan Total Fixed Income Database Median	0.31	6.71	0.71	10.52	7.98
Lehman Bros. Aggregate Index	(0.81)	6.80	0.32	10.40	8.63

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

Performance Comparison

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

<u>Fiscal Years Ended June 30</u>	<u>Annualized</u>		
	<u>2006</u>	<u>3-Year</u>	<u>5-Year</u>
Total Fund:			
Arkansas Public Employees Retirement System	12.24%	11.82%	6.82%
Callan Total Public Fund Median	10.47	11.77	6.52
Inflation (Consumer Price Index)	4.47	3.41	2.61
Equities:			
Arkansas Public Employees Retirement System	10.61%	12.87%	3.71%
Callan Total Equity Database Median	11.63	15.57	6.26
Standard & Poor's 500 Index	8.63	11.22	2.49
International Equities:			
Arkansas Public Employees Retirement System	25.91%	21.94%	9.66%
Callan Total Non-US Equities Database Median	28.02	24.73	11.62
MSCI-EAFE Index	26.56	23.94	10.02
Fixed Income:			
Arkansas Public Employees Retirement System	0.20%	3.54%	5.74%
Callan Total Fixed Income Database Median	0.31	2.35	5.16
Lehman Bros. Aggregate Index	(0.81)	2.05	4.97

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

Portfolio Characteristics

For Fiscal Years Ended June 30

	<u>2006</u>	<u>2005</u>
Selected Bond Characteristics:		
Yield to Maturity (Market)	6.17%	4.82%
Current Yield	7.27	5.36
Average Coupon Rate	5.82	5.31
Average Maturity	8.37Yrs.	7.31Yrs.
Quality Breakdown:		
AAA (Includes Govts. & Agencies)	64.70%	60.70%
AA	4.70	4.30
A	5.80	7.70
BAA	14.60	16.30
BA	6.10	4.40
B	1.80	1.80
Below C	0.20	0.50
*Cash	2.10	4.30
Selected Stock Characteristics:		
Average P/E Ratio	18.50x	19.19x
Estimated Earnings Growth Rate (Next 5 Years)	14.00%	13.18%
Current Yield	1.60	1.49
* Includes Short Term Investment Fund		

List of

Ten Largest Assets Held

As of June 30, 2006

DOMESTIC FIXED INCOME HOLDING (BY MARKET VALUE)

	Par	Security	Market Value
1)	13,543,064	Fed Nat'l Mtg. Assn. Pool #555531 5.50% 06/01/33	\$ 13,064,994
2)	12,220,000	US Treasury Note 3.875% 09/15/10	11,660,553
3)	10,112,000	US Treasury Note 4.50% 02/28/11	9,860,009
4)	9,145,000	US Treasury Note 4.50% 02/15/09	9,000,326
5)	7,830,000	US Treasury Bond 6.25% 08/15/23	8,635,629
6)	9,026,000	US Treasury Note 4.25% 11/15/13	8,541,575
7)	7,775,000	US Treasury Bond 6.00% 02/15/26	8,421,880
8)	7,988,000	US Treasury Note 4.50% 11/15/10	7,802,678
9)	7,790,000	Fed Nat'l Mtg. Assn. Pool 4.00% 09/02/08	7,544,128
10)	7,560,000	Fed Nat'l Mtg. Assn. Pool #891595 5.00% 06/01/36	7,067,088
Total			\$ 91,598,860

DOMESTIC EQUITY HOLDING (BY MARKET VALUE)

	Shares	Security	Market Value
1)	725,925	Bank of America Corp.	\$ 34,916,993
2.	557,666	Citigroup Inc.	26,901,808
3)	435,648	Exxon Mobil Corp.	26,727,005
4)	894,126	Microsoft Corp.	20,833,136
5)	55,240	Hewlett Packard Company	17,500,032
6)	232,900	Altria Group Inc.	17,101,847
7)	263,380	Johnson & Johnson	15,781,730
8)	214,000	Valero Energy Corp.	14,235,280
9)	226,262	Chevron Corp.	14,041,820
10)	233,100	Pepsico Inc.	13,995,324
Total			\$202,034,975

INTERNATIONAL EQUITY HOLDING (BY MARKET VALUE)

	Shares	Security	Market Value
1)	136,949	Roche Holding AG	\$ 22,596,670
2)	333,014	TOTAL SA	21,908,831
3)	187,622	Sanofi-Aventis	18,305,532
4)	114,590	Allianz AG	18,099,224
5)	531,242	AXA	17,431,179
6)	622,664	ABN AMRO Holdings	17,030,085
7)	2,708,982	Tesco	16,916,145
8)	1,369,833	BP Amoco	15,974,192
9)	1,387,116	Barclays	15,765,810
10)	1,812,323	Uicredito Italiano SPA	14,186,579
Total			\$178,214,247

Schedule of

Brokerage Commissions

As of June 30, 2006

Brokerage Firm	Number of Shares Traded	Total Commission	Commission Per Share
Lehman Brothers Inc.	9,032,503	\$ 671,895	0.07
Goldman, Sachs & Co.	7,028,492	559,154	0.08
Citigroup Global Markets Inc.	6,352,665	499,644	0.08
Merrill Lynch Pierce Fenner & Smith Inc.	7,532,278	265,547	0.04
Bear Stearns & Co., Inc.	2,481,819	121,147	0.05
UBS Securities LLC	3,266,570	115,575	0.04
Banc Of America Securities LLC	2,469,066	113,896	0.05
JP Morgan Securities	2,139,750	106,193	0.05
SG Cowen	1,877,785	94,785	0.05
Instinet	3,768,554	93,728	0.02
Wachovia Securities	1,837,005	87,636	0.05
Morgan Stanley	2,590,760	86,561	0.03
Robert W. Baird & Co. Inc.	1,563,850	76,443	0.05
BNY Brokerage Inc.	1,435,927	73,195	0.05
Broadcort	1,468,885	72,345	0.05
Gerson Lehrman Group Brokerage	1,868,800	69,639	0.04
Liquidnet Inc.	3,270,513	65,410	0.02
Deutsche Bank Securities Inc.	1,877,939	65,186	0.03
Credit Suisse First Boston LLC	1,711,161	64,728	0.04
Capital Institutional Services, Inc.	2,903,938	58,821	0.02
Other (Includes 117 Brokerage Firms)	<u>28,412,910</u>	<u>1,234,073</u>	0.04
	<u>94,891,170</u>	<u>\$4,595,601</u>	0.05

Schedule of

Investment Fees

As of June 30, 2006

Equities	Market Value	Fee	Basis Points
Froley, Revy - Convertible Securities	\$ 194,279,040	\$ 767,174	40
INVESCO - Value	233,552,316	602,110	30
Lazard Asset Mgmt. - Value	229,275,619	675,127	30
Westwood Mgmt. - SMID Cap	239,182,104	1,368,007	25
J & W Seligman - Growth	184,000,038	565,336	30
Goldman, Sachs - SMID Cap	219,480,329	991,332	45
BNY S & P 500 Index Fund	412,470,260	112,100	3
BNY Russell 3000 Index Fund	67,097,087	11,320	3
INTECH - Growth	254,089,507	1,143,652	47
CastleArk Mgmt. - Growth	267,449,723	903,188	35
Wellington Mgmt. Co. - Value	268,434,228	788,398	30
UBS Global Asset Mgmt. - Int'l Value	537,557,356	2,445,322	45
RiverSource - Int'l Growth	<u>562,205,507</u>	<u>2,657,363</u>	50
Total Equity	\$3,669,073,114	\$13,030,429	
Fixed Income	Market Value	Fee	Basis Points
Aberdeen Asset Mgmt. - Core Plus	\$ 301,290,667	\$ 592,037	20
MacKay Shields - Core Plus I	249,131,527	494,836	20
MacKay Shields - Core Plus II	148,215,949	209,245	15
Prudential Investments - Core Plus	<u>300,864,454</u>	<u>596,973</u>	20
Total Fixed Income	\$ 999,502,597	\$ 1,893,091	
Alternatives	Market Value	Fee	Basis Points
Pinnacle Forest Investments – Timberland	\$ 170,684,150	\$ 1,170,859	90
Hancock Timber - Timberland	8,227,580	67,186	90
INVESCO Realty - Real Estate & REITS	<u>276,661,620</u>	<u>1,524,063</u>	65
Total Alternatives	\$ 455,573,350	\$ 2,762,108	
Other Investment Services		Fee	
Bank of New York (Custodian)		\$ 556,175	
Bank of New York (Securities Lending)		567,208	
Callan Associates (Consultant)		159,120	
Total Other Services		<u>1,282,503</u>	
Total Investment Service Fees		<u>\$18,968,131</u>	

Investments

Comparative Schedule of

For the Years Ended June 30

	<u>2006</u>	<u>2005</u>
U.S. Government Securities		
U.S. Government Securities	\$ 115,440,837	\$ 86,605,545
U.S. Government Agency Securities	326,746,744	352,704,738
Corporate Securities:		
Collateralized Obligations	183,021,390	106,052,354
Corporate Bonds	230,607,819	274,794,448
Convertible Bonds	147,675,495	132,266,649
Convertible Preferred Stock	39,702,470	43,012,269
Common Stock	1,715,828,326	1,559,574,683
Equity Index Funds	473,010,696	444,471,708
Equity Co-mingled	219,480,329	202,400,000
High Yield Income Fund	36,029,790	37,565,408
Options	11,516	0
International Securities:		
Global Fixed Income Fund	3,175,181	0
Government Fixed Obligations	17,425,975	29,233,376
Corporate Fixed Income	2,940,003	2,845,698
Equity Securities	555,548,329	435,197,990
Equity Pooled Fund Units	537,557,356	440,473,830
Emerging Markets	38,531,509	40,493,043
Forward Contracts	(33,220)	0
Real Estate	191,333,954	157,623,725
Timberland	178,911,730	157,314,473
Municipal Bonds	14,549,990	20,336,671
Commercial Loans	3,654,200	0
Short Term Investments	<u>157,610,861</u>	<u>218,581,305</u>
TOTAL INVESTMENTS*	<u>\$5,188,761,280</u>	<u>\$4,741,547,913</u>

* At Fair Value.

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Actuarial



Actuary's Certification Letter

Summary of Assumptions Used

Summary of Actuarial Methods and Assumptions

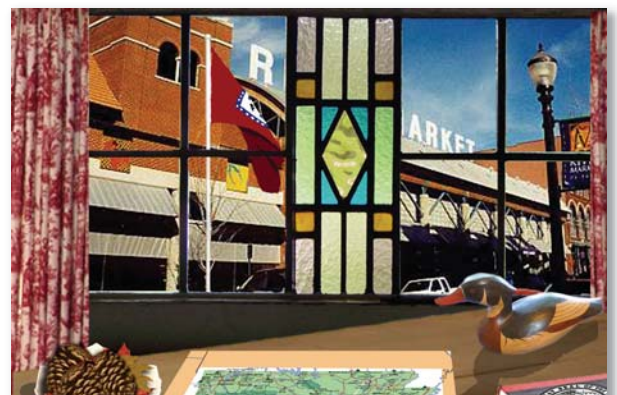
Active Member Valuation Data

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)



"River Market"

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October 27, 2006

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 period of up to thirty years. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2006.

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

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

Actuarial Section

- Summary of Actuarial Assumptions
- Percent Retiring Next Year
- Probabilities of Retirement for Members Eligible to Retire
- Percent Separating Within Next Year
- Individual Employee Pay Increases
- Analysis of Financial Experience

Financial Section

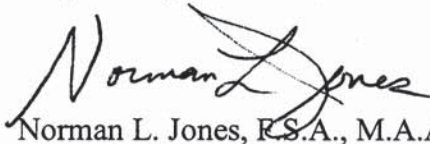
- Schedule of Funding Progress

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

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2006 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, 2006 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:lr

Summary of

Assumptions Used in Actuarial Valuations

ASSUMPTIONS ADOPTED BY BOARD OF TRUSTEES AFTER CONSULTING WITH ACTUARY
JUNE 30, 2006 VALUATION

Economic Assumptions

The investment return rate used in making the valuation was 8.00% per year, compounded annually (net after investment and administrative expenses).

This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the inflation rate. Considering the assumed 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 and contribution rate applicable to new hires. While 5.0% of member contributions are assumed in developing the employer normal cost, until such time as all members become contributory, the System will not receive 5.0% of payroll for member contributions. To account for this difference, 5.0% of the present value of future salary for all non-contributory members has been added to the actuarial accrued liability.

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, 2006 Valuations

Actuarial Assumptions as of June 30, 2006

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry age
Amortization Method	19.3 years
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
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 \$1.00 Monthly for Life		Present Value of \$1.00 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$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	\$100.00	100%	100%
65	116.00	94	97
70	134.00	84	92
75	155.00	69	84
80	180.00	51	70

The mortality table was set forward 10 years for disabilities.

Summary of

Actuarial Methods and Assumptions

June 30, 2006 Valuations

State and Local Government Division

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.

Probabilities of Retirement for Members Eligible to Retire

Percent of Eligible Active Members Retiring Within Next Year

State and Local Government Division

Age-Based Retirement			Service-Based Retirement		
Retirement Ages (With less than 28 years of service)	Unreduced	Reduced	Years	Retirement	DROP
55-56		2%	28	20 %	35 %
57-58		3	29	15	20
59		4	30-35	15	15
60		5	36	20	
61		7	37	30	
62		23	38	100	
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				

<u>General Assembly Division</u>	
Age-Based Retirement	
Retirement Ages	Percentages
50-61	30%
62	50
63-64	30
65	50
66	30
67-79	20
80	100

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

Local Government Division

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

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

State and Local Government Division

Valuation Date June 30	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	% Change	
2001	42,469	\$1,069,021,325	\$25,172	+3.2 %	+3.2
2002	42,143	1,110,424,974	26,349	+4.7	+1.1
2003	42,825	1,147,269,521	26,790	+1.7	+2.1
2004	42,772	1,175,040,470	27,472	+2.6	+3.0
2005	42,916	1,214,612,719	28,302	<u>+3.1</u>	<u>+3.2</u>
2006	43,430	1,266,726,823	29,167	<u>+3.1</u>	<u>+3.2</u>

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 June 30	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	% Change	
1993#@	127	\$955,040	\$7,520	+0.0 %	+3.0
1994	128	N/A	12,512	+6.4	+2.5
1995#	125	N/A	12,512	+0.0	+3.0
1996	124	1,553,000	12,524	+0.0	+2.8
1997#	125	1,565,500	12,524	+0.0	+3.0
1998@	121	1,515,500	12,525	+0.0	+2.3
1999	122	1,526,500	12,512	-0.1	+1.7
2000	120	1,500,000	12,500	-0.1	+3.7
2001	87	1,087,500	12,500	+0.0	+3.2
2002	87	1,087,500	12,500	+0.0	+1.1
2003	54	675,000	12,500	+0.0	+2.1
2004	54	745,489	13,805	+10.4	+3.0
2005	22	310,534	14,115	+ 2.2	+3.2
2006	22	318,792	14,491	+2.7	+3.2

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 schedule illustrates 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.

Val'n Date: June 30	<u>Entry Age Accrued Liability</u>			Valuation Assets	<u>Portion of Present Values Covered By Present Assets</u>			
	(1) Active Member Contr.	(2) Retirees and Benef.	(3) Active Members (Employer Fin. Portion)					
(\$ in Millions)								
STATE AGENCIES DIVISION (Including subdivisions)								
1998 @	\$17.2	\$ 640.3	\$1,395.9	\$2,328.5	100 %	100 %	119 %	113 %
1999 @#	16.9	784.0	1,634.2	2,637.1	100	100	112	108
2000	15.8	747.5	1,865.7	2,943.3	100	100	117	112
LOCAL GOVERNMENT EMPLOYERS								
1998 @	\$ 8.8	\$ 337.9	\$ 501.1	\$ 968.1	100 %	100 %	124 %	114 %
1999 #	8.8	446.9	587.9	1,074.7	100	100	105	103
2000	7.6	440.0	706.0	1,178.1	100	100	103	102
STATE AGENCIES AND LOCAL GOVERNMENT EMPLOYERS								
2001 #	\$23.4	\$1,305.0	\$2,759.2	\$4,335.5	100 %	100 %	109 %	106 %
2002 @	20.5	1,502.7	2,850.8	4,397.2	100	100	101	101
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
2005@	15.5	1,878.2	3,701.7	4,576.1	100	100	72	82
2006	15.5	1,990.6	3,907.3	4,941.1	100	100	75	84

@ After changes in financial assumptions

After legislated changes in benefit provisions

Analysis of Financial Experience

For The Year Ended June 30, 2006

Actual experience will never (except by coincidence) coincide exactly with assumed experience.

It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

\$ in Millions

	State and Local		
	Government Division	General Assembly	Total
(1) UAAL* at beginning of year	\$1,019.3	\$16.1	\$1,035.4
(2) Normal cost from last valuation	85.1	0.0	85.1
(3) Actual employer contributions	156.6	1.5	158.1
(4) Interest accrual: [(1) + 1/2[(2) - (3)]]x .080	78.7	1.2	79.9
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	1,026.5	15.8	1,042.3
(6) Increase from benefit changes	0.0	0.0	0.0
(7) Changes from revised actuarial assumptions and methods	0.0	0.0	0.0
(8) New entrant liabilities	29.6	0.0	29.6
(9) Expected UAAL after changes: (5) + (6) + (7) + (8)	1,056.1	15.8	1,071.9
(10) Actual UAAL at end of year	<u>972.3</u>	<u>15.0</u>	<u>987.3</u>
(11) Gain/(loss): (9) - (10)	<u>\$ 83.8</u>	<u>\$ 0.8</u>	<u>\$ 84.6</u>

* *Unfunded actuarial accrued liability.*

Analysis of Financial Experience

Gain And Loss By Risk Area

Year Ended June 30, 2006

Type of Risk Area	Gain/(Loss) in Period - (\$ in Millions)			% of Accrued Liabilities
	State and Local Gov. Division	General Assembly	Total	
ECONOMIC RISK AREAS				
<u>Pay Increases</u>				
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$(15.4)	\$0.0	\$(15.4)	(0.3)%
<u>Investment Return</u>				
If there is greater investment return than assumed, there is a gain. If less return, a loss.	46.5	0.0	46.5	0.8 %
NON-ECONOMIC RISK AREAS				
<u>Non-Casualty Retirements</u>				
If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	17.0	0.0	17.0	0.3 %
<u>Disability Retirements</u>				
If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.8	0.0	0.8	0.0 %
<u>Death-in-Service Benefits</u>				
If there are fewer claims than assumed, there is a gain. If more, a loss.	0.0	0.0	0.0	0.0 %
<u>Withdrawal</u>				
If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	<u>11.4</u>	<u>0.0</u>	<u>11.4</u>	<u>0.2 %</u>
Total Active Member Actuarial Gains/(Losses)	\$60.3	\$0.0	\$60.3	1.0 %
<u>Retired Life Mortality</u>	8.0	0.4	8.4	0.1 %
<u>Other</u>				
Includes data adjustments at retirement, timing of financial transactions, retired life mortality, and miscellaneous unidentified sources.	<u>\$ 15.5</u>	<u>\$0.4</u>	<u>\$ 15.9</u>	<u>0.3 %</u>
Total Actuarial Gains (Losses)	<u>\$ 83.8</u>	<u>\$0.8</u>	<u>\$ 84.6</u>	<u>1.4 %</u>

Summary of Plan Provisions

(Excludes Special Provisions For General Assembly)

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 elected to participate in the New Contributory Plan before Jan. 1, 2006.

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 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.

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 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.

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.

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 minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

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 the amount provided by contributory provisions in effect at the time of retirement. The minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

Benefit Increases After Retirement

Once retired for twelve months, effective July 1 there will be a cost of living adjustment equal to 3% of the current benefit.

Once retired for twelve months, effective July 1 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 may be refunded to the designated beneficiary. 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 a maximum of 25% for all children. Dependent parent benefits are payable if neither spouse nor children benefits are payable.

Summary of Plan Provisions

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 (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



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



"Rice Fields"

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Schedule of

Revenues By Source

For Fiscal Years 2002-2006

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Transfers And Other	Total
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
2005	82,836	135,027,446	401,429,532	9,354,055	545,893,869
2006	\$4,667,067	\$158,152,183	\$ 545,321,895	\$10,630,255	\$ 718,771,400

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

Schedule of

Expenses By Type

For Fiscal Years 2002-2006

Year Ending June 30	Benefit Payments ¹	Administrative Expenses	Refunds	Misc.	Total
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
2005	207,122,449	4,313,081	526,398	-	211,961,928
2006	\$219,711,792	\$4,272,313	\$ 62,133	-	\$224,046,238

¹ Includes DROP and PAW distributions.

Schedule of

Benefit Expenses By Type*

For Fiscal Years 2002-2006

Year Ended June 30	Age & Service		Death In Service	Disability Retirees
	Retirees	Survivors		
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
2005	168,774,960	6,170,316	4,431,564	9,914,448
2006	178,052,748	5,700,516	4,670,760	10,925,028

* Expenses are based on June 30 benefit amounts annualized.

Schedule of

Retired Members By Type of Benefit

As of June 30, 2006

Type of Annuity	Number	Annual Annuities
Age & Service Retirees		
Life	13,828	\$144,193,476
Option A-60 (5 years certain)	530	5,128,416
Option A-120 (10 years certain)	1,085	9,956,364
Option B-50 (joint and 50% survivor)	608	8,718,504
Option B-75 (joint and 75% survivor)	766	8,819,964
Option B-100 (joint and 100% survivor)	<u>80</u>	<u>1,236,024</u>
Totals	16,897	178,052,748
Beneficiaries of Age & Service Retirees		
Life	104	706,284
Option A-60	25	225,624
Option A-120	126	959,448
Option B-50	187	1,341,192
Option B-75	218	1,821,000
Option B-100	<u>38</u>	<u>646,968</u>
Totals	<u>698</u>	<u>5,700,516</u>
Total Age & Service Retirees & Beneficiaries	17,595	183,753,264
Disability Retirees		
Life	1,218	8,314,272
Option A-60	74	473,484
Option A-120	149	932,580
Option B-50	74	520,236
Option B-75	105	684,456
Option B-100	<u>0</u>	<u>0</u>
Totals	1,620	10,925,028
Beneficiaries of Disability Retirees		
Life	20	139,200
Option A-60	6	29,196
Option A-120	60	352,608
Option B-50	26	112,704
Option B-75	85	493,500
Option B-100	<u>0</u>	<u>0</u>
Totals	197	1,127,208
Total Disability Retirees & Beneficiaries	1,817	12,052,236
Death-in-Service Beneficiaries	<u>800</u>	<u>4,670,760</u>
Total Retirees & Beneficiaries	20,212	200,476,260
DROP Participants	<u>2,022</u>	<u>54,238,848</u>
GRAND TOTAL	<u>22,234</u>	<u>\$254,715,108</u>

Schedule of

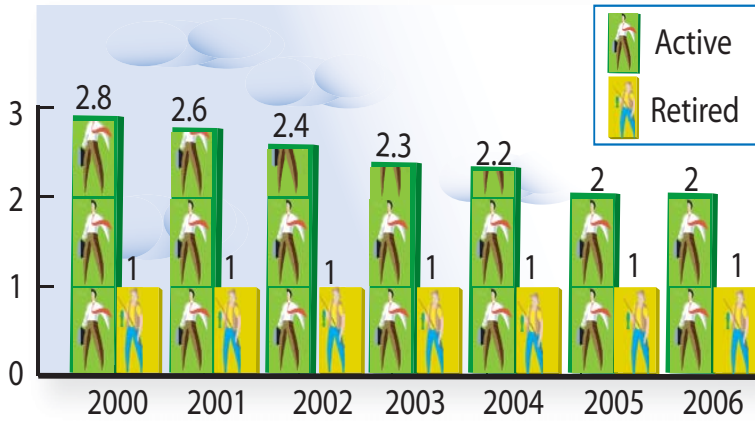
Average Benefit Payments

As of June 30, 2006

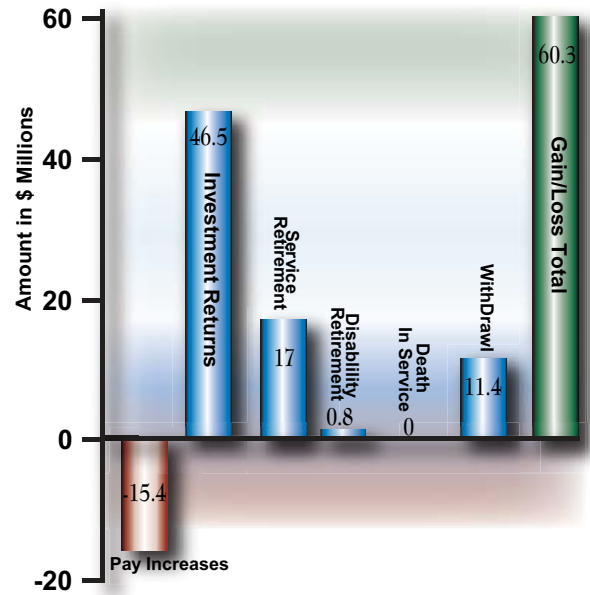
	Years of Credited Service				
	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>
Retirement Effective Dates					
<u>July 1, 2005 to June 30, 2006</u>					
Avg. Monthly Benefit	\$ 428.30	\$ 628.77	\$ 851.47	\$1,595.84	\$ 2,027.47
Avg. Monthly Final Average Salary	2,089.85	2,153.23	2,272.87	2,939.48	3,286.53
Number of Active Retirants	229	224	169	259	70
Retirement Effective Dates					
<u>July 1, 2004 to June 30, 2005</u>					
Avg. Monthly Benefit	397.31	561.66	792.36	1,520.77	1,877.46
Avg. Monthly Final Average Salary	1,969.28	2,035.54	2,216.18	2,764.26	3,119.45
Number of Active Retirants	210	196	159	231	122
Retirement Effective Dates					
<u>July 1, 2003 to June 30, 2004</u>					
Avg. Monthly Benefit	394.31	586.41	850.41	1,560.77	1,706.37
Avg. Monthly Final Average Salary	1,917.01	2,103.77	2,306.09	2,762.24	2,780.90
Number of Active Retirants	233	199	182	201	62
Retirement Effective Dates					
<u>July 1, 2002 to June 30, 2003</u>					
Avg. Monthly Benefit	361.00	567.56	857.37	1,690.12	2,303.26
Avg. Monthly Final Average Salary	1,719.60	1,889.27	2,282.47	2,877.35	3,128.83
Number of Active Retirants	215	194	180	226	94
Retirement Effective Dates					
<u>July 1, 2001 to June 30, 2002</u>					
Avg. Monthly Benefit	377.24	593.83	816.37	1,674.09	2,133.93
Avg. Monthly Final Average Salary	1,783.08	1,915.80	2,129.39	2,686.34	3,003.61
Number of Active Retirants	232	176	181	252	85
Retirement Effective Dates					
<u>July 1, 2001 to June 30, 2006</u>					
Avg. Monthly Benefit	391.89	588.72	834.38	1,610.07	2,020.00
Avg. Monthly Final Average Salary	1,896.49	2,025.92	2,241.63	2,807.80	3,077.28
Number of Active Retirants	1,119	989	871	1,169	433

Statistical Graphs

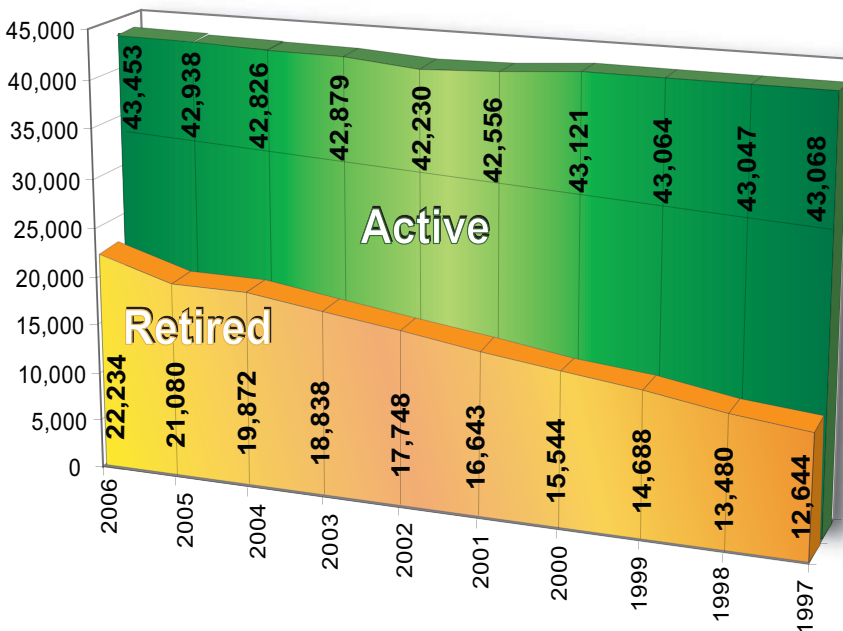
**Active Members Per Retired Lives
2000 Through 2006 Comparison**



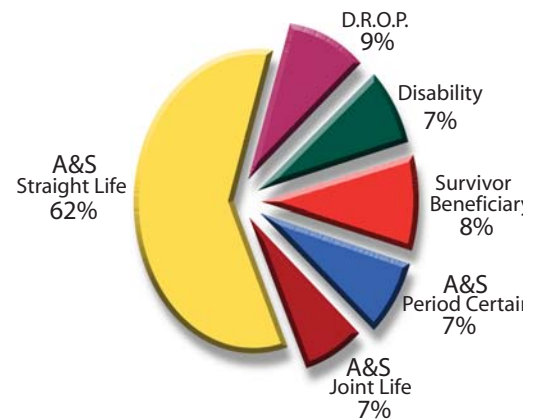
**Actuarial Gains/(Losses)
Active Members
2005-2006 Plan Year**



**Active and Retired Members' Populations
1997 to 2006 Comparison**



Annuities Being Paid By Type



Appendix



Schedule of Participating Employers



"Winter Wonder"

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Schedule of

Participating Employers

As of June 30, 2006

STATE AGENCIES

Abstractor's Board of Examiners	Board of Registry for Professional Geologists	Drug Task Force – 18th W. Judicial District
Administrative Office of The Courts	Board of Registry for Progress Engineers	Drug Task Force - 21st Judicial District
Administrative Office of the Courts-Director	Boone County Conservation District	Drug Task Force - Batesville
Arkansas Appraisers Licensing/Certification.	Buffalo Conservation District	Drug Task Force - Monticello
Arkansas Crime Information Center	Building Authority	East Arkansas Community College
Arkansas Dept. of Agriculture	Burial Association Board	Educational Television Commission
Arkansas Dept. of Environmental Quality	Calhoun County Conservation District	Department of Workforce Services
Arkansas Economic Development Commission	Capitol Zoning District Commission	Examiners in Psychology
Arkansas Fair Housing Commission	Carroll County Conservation District	Faulkner County Conservation District
Arkansas Public Defender Commission	Chicot County Conservation District	Fire Protection Licensing Board
Arkansas County Conservation District	Claims Commission	Forestry Commission
Arkansas Ethics Commission	Clark County Conservation District	Franklin County Conservation District
Arkansas Heritage	Clay County Conservation District	Fulton County Conservation District
Arkansas Minority Health Commission	Cleburne County Conservation District	Garland County Conservation District
Arkansas Natural Resources Commission	Constitutional Officers	Game & Fish Commission
Arkansas Northeastern College	Contractors Licensing Board	Game & Fish Commission - Wildlife Officer
Arkansas Sentencing Commission	Conway County Conservation District	General Assembly - House
Arkansas State Athletic Commission	Cossatot Community College - University of	General Assembly - Senate
Arkansas State Board of Massage Therapy	Arkansas	Geological Commission
Arkansas State Board of Optometry	Cossatot Conservation District	Governor's Office
Arkansas State Capitol Police	Court of Appeals	Grant County Conservation District
Arkansas State Library	Court Reporters	Greene County Conservation District
Arkansas State University	Craighead County Conservation District	Hempstead County Soil Conservation
Arkansas State University - Beebe	Crawford County Conservation District	Henderson State University
Arkansas State University-Mountain Home	Crittenden County Conservation District	History Commission
Arkansas State University-Newport	Crooked Creek Conservation District	Hot Spring County Conservation District
Arkansas Tech University	Cross County Conservation District	House Speaker's Office
Arkansas Tobacco Control Board	Crowley's Ridge Technical Institute	Independence County Conservation District
Arkansas Tobacco Settlement Commission	Dallas County Conservation District	Insurance Department
Arkansas Towing & Recovery Board	Department of Aeronautics	Izard County Conservation District
Arkansas Transitional Employment Board	Department of Community Correction	Jackson County Conservation District
Ashley County Conservation District	Department of Corrections	Jefferson County Conservation District
Assessment Coordination Department	Department of Emergency Management	Johnson County Conservation District
Attorney General	Department of Finance & Administration	Judicial Discipline/Disability Commission
Auctioneers Licensing Board	Department of Health	Lafayette County Conservation District
Auditor of State	Department of Higher Education	Law Enforcement Standards
Baxter County Conservation District	Department of Human Services	Lawrence County Conservation District
Board of Examiners in Speech, Language & Pathology	Department of Information Systems	Lee County Conservation District
Benton County Conservation District	Department of Labor	Legislative Council
Board of Accountancy	Deputy Prosecuting Attorney	Lieutenant Governor
Board of Architects	Desha County Conservation District	Lincoln County Conservation District
Board of Barber Examiners	Development Finance Authority	Liquified Petroleum Gas Division
Board of Chiropractic Examiners	Dietetic Licensing Board	Little River Conservation District
Board of Collection Agencies	Disability Determination for Social Security Administration	Livestock & Poultry Commission
Board of Cosmetology	Disabled Veterans Service	Logan County Conservation District
Board of Dental Examiners	Division of Legislative Audit	Lonoke County Conservation District
Board of Dispensing Opticians	Drug Task Force - 1st Judicial District	Madison County Conservation District
Board of Embalmers and Funeral Directors	Drug Task Force - 5th Judicial District	Manufactured Home Commission
Board of Examiners in Counseling	Drug Task Force - 8th Judicial District	Martin Luther King Jr. Commission
Board of Nursing	Drug Task Force - 13th Judicial District	Medical Board
Board of Pharmacy	Drug Task Force - 14th Judicial District	Miller County Conservation District
Board of Physical Therapy	Drug Task Force - 15th Judicial District	Mine Creek Conservation District

(CONTINUED)

STATE AGENCIES (CONT.)

Mississippi County Conservation District
 Monroe County Conservation District
 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
 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-Tyronza Drainage
 Greene
 Hempstead
 Hot Spring
 Howard
 Independence
 Izard
 Jackson
 Jefferson
 Johnson
 Lafayette
 Lawrence
 Lee
 Lincoln
 Little River
 Logan
 Lonoke
 Madison
 Marion
 Miller
 Mississippi
 Monroe

(CONTINUED)

COUNTY EMPLOYERS (CONT.)

Montgomery
 Nevada
 Newton
 Ouachita
 Perry
 Phillips
 Pike
 Poinsett
 Polk
 Pope
 Prairie
 Pulaski
 Randolph
 Randolph County Nursing Home
 Saline
 Saline County Library
 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
 Emerson
 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/West Helena District Ct 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

(CONTINUED)

MUNICIPAL EMPLOYERS (CONT.)

Lake Village District Court Clerk's Office
 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 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
 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
 Clarendon
 Clarksville
 Clinton
 Concord
 Conway
 Corning
 Cotter
 Cross County
 Crossett
 Cutter Morning Star
 Danville
 Dardanelle
 Decatur
 Deer
 Delta Special
 DeQueen
 Dermott Special
 Des Arc
 DeValls Bluff
 DeWitt/Gillett
 Dollarway
 Dover

(CONTINUED)

SCHOOL EMPLOYERS (CONT.)

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

(CONTINUED)

OTHER NON-STATE EMPLOYERS

Benton County Solid Waste
 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
 Milltown-Washburn Water Users Assn.
 Pulaski County Regional Solid Waste
 Management District
 Rehab, Industry & Business
 Riversouth Rural Water District
 Sardis Water Association
 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, 2006

State Agencies	243
County Agencies	86
Municipal Agencies	201
School Employers	201
Other Non-State Agencies	23

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