

Arkansas

District Judge Retirement System

A Pension Trust Fund of the State of Arkansas

Annual Financial Report

For the Year Ended June 30, 2006

Prepared by
APERS Administrative Staff

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

124 West Capitol Avenue, Suite 400

Little Rock, AR 72201

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Table Of Contents

	Page
History	4
Membership Information	4
Letter from the Board Chair / Executive Director	5
Board of Trustees	7
Organizational Chart / Professional Consultants	8
Statements of Plan Net Assets	9
Statements of Changes in Plan Net Assets	10
Schedule of Funding Progress	11
Supporting Schedules	
•Schedule of Administrative Expense	11
•Schedule of Investment Expense	11
•Schedule of Payments for Professional Consultants	11
Manager Distribution Chart / Investment Portfolio Distribution	12
Actuarial Cost Methods and Assumptions	13
Summary of Plan Provisions	15
Member Profile	16
Additional Schedules	
•Schedule of Revenues by Source	17
•Schedule of Expenses by Type	17
•Schedule of Benefit Expenses by Type	17

A Brief History

Arkansas District Judge Retirement System

With the approval of the General Assembly, Act 1374 of 2003 and its companion, Act 1375, the Arkansas District Judge Retirement System (ADJRS) was established and became effective January 1, 2005.

This System provides for the retirement of all district court judges that are not covered under the Arkansas Public Employees Retirement System (APERS). District Court Judges first hired in the position after January 1, 2005, will be covered in ADJRS. This System provides retirement benefits for district judges, court clerks and their survivors who had retired from the local retirement plans. A deferred benefit was established for all district judges and court clerks in the local plans that were active on December 31, 2004. These deferred annuities will be eligible for a benefit when they meet the eligibility requirements for their previous local plans.

The statutes providing for and governing the Arkansas District Judge Retirement System may be found in Chapters 2 and 8 of Title 24 of the Arkansas Code Annotated. The administration and control of the System is vested in the Board of Trustees. The Board is appointed by the Arkansas District Judge Council and the Governor.

This annual financial report, which covers the period from July 1, 2005, through June 30, 2006, provides information about the System including statements of financial condition, an actuarial report, historical and statistical information on active members, annuitants and benefit payments, as well as a description of the retirement plan.

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Membership Information

As of June 30, 2006

Active Members

Number	73
Average Age	54.8 years
Average Years	9.6 years
Average Annual Salary	\$45,390

Total Retirees

Number	94
Average Monthly Benefit	\$869

ARKANSAS DISTRICT JUDGE RETIREMENT SYSTEM

BOARD OF TRUSTEES

STEVE ROUTON, Chair
District Judge, Forrest City

JUDY WEST
Court Clerk, North Little Rock

RODNEY PARKS
Citizen At Large, Little Rock

MARK R. HAYES
Employer Rep., North Little Rock

MILAS "BUTCH" HALE, Jr.
District Judge, Sherwood

December 15, 2006

GAIL H. STONE, Executive Director
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Dear ADJRS Members:

The Arkansas District Judge Retirement System (ADJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2006. The report is designed to provide a clear and concise picture of the financial conditions of the System.

Accounting System

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the Arkansas District Judge Retirement System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to date of collection, and expenses are recorded when incurred, regardless of when payment is made. Investments are reported at market values determined by the custodial agent. The agent's determination of market value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Revenues

The fiscal year 2006 revenue from employer and employee contributions totaled \$764,069. Miscellaneous income was approximately \$3,286 for fiscal year 2006.

Net investment income for fiscal year 2006 was \$592,400.

Expenses

Benefit payments for fiscal year 2006 were \$985,290. Administrative expenses were \$71,515, of which \$10,000 was for professional fees (i.e. actuary) and \$59,269 was transferred to APERS for indirect administrative costs and other expenses of \$2,246.

Funding

The System is funded through contributions from employers, employees and investment income. The general financial objective of the System is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation.

Investments

In accordance with the Investment Code contained in the Arkansas Code Annotated (A.C.A.), Title 24, Chapter 2, the Board of Trustees is required to invest the funds in conformity with the “prudent investor rule.” The Investment Code permits the Board to establish an investment policy based upon certain investment criteria and allows the Board to retain professional investment advisors to assist the Board in making investments. The Board will be establishing an investment policy that reflects the level of risk that is deemed appropriate for the Fund. The investment advisor retained by the Board is listed on the schedule of professional services’ contractors.

Professional Services

Professional services are provided to ADJRS by a firm selected by the ADJRS Board of Trustees to aid in the efficient and effective management of the System. A listing for this firm as well as other professional services’ contractors retained by ADJRS is shown on page 8 of this report.

Acknowledgments

This report is the result of the combined efforts of the Arkansas Public Employees Retirement System staff under the direction of the Arkansas District Judge Retirement System Board of Trustees. Its purpose is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with legal provisions, and as a means for determining responsible stewardship over the assets contributed by the members and employers.



Judge Steve Routon
Chairman, ADJRS Board



Gail H. Stone
Executive Director

The Honorable Steve Routon, Chair

District Judge
615 East Cross
Forrest City, AR 72335
(870) 261-1410

The Honorable Milas “Butch” Hale, Jr.

District Judge
4801 N. Hills Blvd. #1550
North Little Rock, AR 72116
(501) 753-4800

Ms. Judy West

District Court Clerk
200 West Pershing Blvd., Room 33
North Little Rock, AR 72114
(501) 791-8562

Mr. Mark R. Hayes

Municipal League
P.O. Box 38
North Little Rock, AR 72115
(501) 978-6102

Mr. Rodney Parks

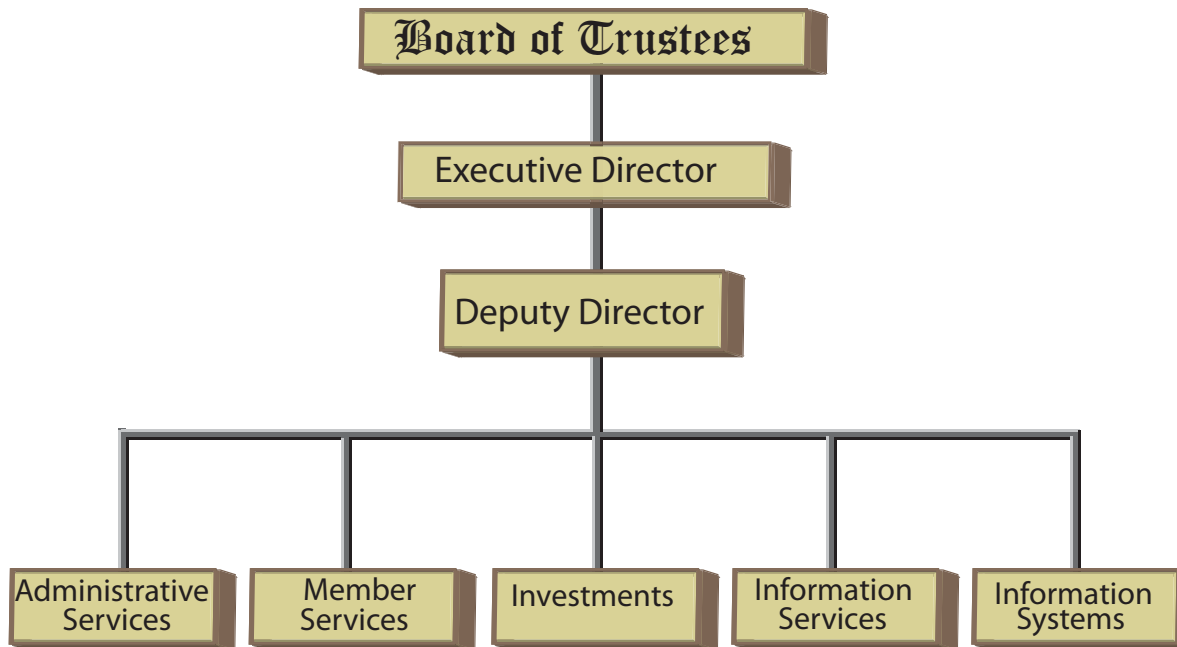
Citizen At Large
10606 Yosemite Valley Drive
Little Rock, AR 72212
(501) 312-7268

Administrative Office

Gail H. Stone, Executive Director

Arkansas District Judge Retirement System
124 West Capitol Avenue, Suite 400
Little Rock, AR 72201
(501) 682-7800
1-800-682-7377

Organizational Chart



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

Professional Consultants

Custodian Bank The Bank of New York One Wall Street New York, NY 10286	Actuary Osborn, Carreiro & Associates, Inc. 124 West Capitol Avenue, Suite 1690 Little Rock, AR 72201	Investment Manager BNY Asset Management 32 Old Slip, 15th Floor New York, NY 10005
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Statement Of

Plan Net Assets

June 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 488,747	\$ 62,901
<u>Receivables:</u>		
Contributions	45,173	53,728
Investment Principal Receivable	0	0
December 2004 Actuarial Liability Receivable	14,799,771	15,981,619
Accrued Investment Income Receivable	<u>1,181</u>	<u>37</u>
Total Receivables	14,846,125	16,035,384
<u>Investments, At Fair Value:</u>		
Mutual Funds		
Equity Index Fund	4,283,262	3,376,552
Fixed Income Index Fund	3,942,160	2,983,655
International Index Fund	<u>1,383,808</u>	<u>1,095,670</u>
Total Investments	9,609,230	7,455,877
TOTAL ASSETS	\$24,944,102	\$23,554,162
LIABILITIES		
Accrued Expenses and Other Liabilities	<u>3,291</u>	<u>2,624</u>
TOTAL LIABILITIES	<u>3,291</u>	<u>2,624</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$24,940,811</u>	<u>\$23,551,538</u>

ADDITIONS	<u>2006</u>	<u>2005</u>
Contributions		
Employer	\$ 597,362	\$ 286,393
Employee	<u>166,707</u>	<u>79,554</u>
Total Contributions	764,069	365,947
<u>Investment Income:</u>		
Interest/Dividends	14,895	37,120
Investment Gain	<u>584,398</u>	<u>258,877</u>
Total Investment Income	599,293	295,997
Less: Investment Expense	<u>6,893</u>	<u>1,107</u>
Net Investment Income	592,400	294,890
<u>Other Additions:</u>		
Miscellaneous Additions	<u>1,101,880</u>	<u>4,060</u>
 TOTAL ADDITIONS	 2,458,349	 664,897
 DEDUCTIONS		
Benefits	985,290	494,794
Refunds	1,143	0
Administrative Expenses	<u>71,515</u>	<u>297,940</u>
Total Expenses	1,057,948	792,734
 Adjustment to 12/31/2004 Unfunded Liability Balance	 <u>11,128</u>	 <u>N/A</u>
 TOTAL DEDUCTIONS	 1,069,076	 792,734
 NET INCREASE	 1,389,273	 (127,837)
 NET ASSETS		
Beginning of Year	23,551,538	0
December 2004 Actuarial Liability Reserve	<u>0</u>	<u>23,679,375</u>
End of Year	<u>\$24,940,811</u>	<u>\$23,551,538</u>

Schedule Of

Funding Progress

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Entry Age Actuarial Accrued Liability (AAL)	(3) Unfunded Accrued Liability (UAAL) (2 - 1)	(4) Funded Ratio (1/2)	(5) Annual Covered Payroll	(6) UAAL* As Percentile of Covered Payroll (3/5)
2005	\$ 7,570	\$24,134	\$16,564	31.4%	\$3,222	514.0%
2006	\$10,141	\$24,943	\$14,802	40.7%	\$3,313	446.7%

Note: Dollars in thousands.

* Unfunded Actuarial Accrued Liability

Schedule Of

Administrative Expense

For The Year Ending June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Communications		
Printing and Advertising	\$ 0	\$ 0
Travel	289	0
Purchases		
Office Supplies	67	0
Services and Charges		
Professional Fees & Services	<u>11,890</u>	<u>170,138</u>
Total Service and Charges	11,890	170,138
Transfer to APERS for Administration	<u>59,269</u>	<u>127,802</u>
Total Administrative Expenses	<u>\$71,515</u>	<u>\$297,940</u>

Schedule Of

Investment Expense

For The Year Ending June 30, 2006 and 2005

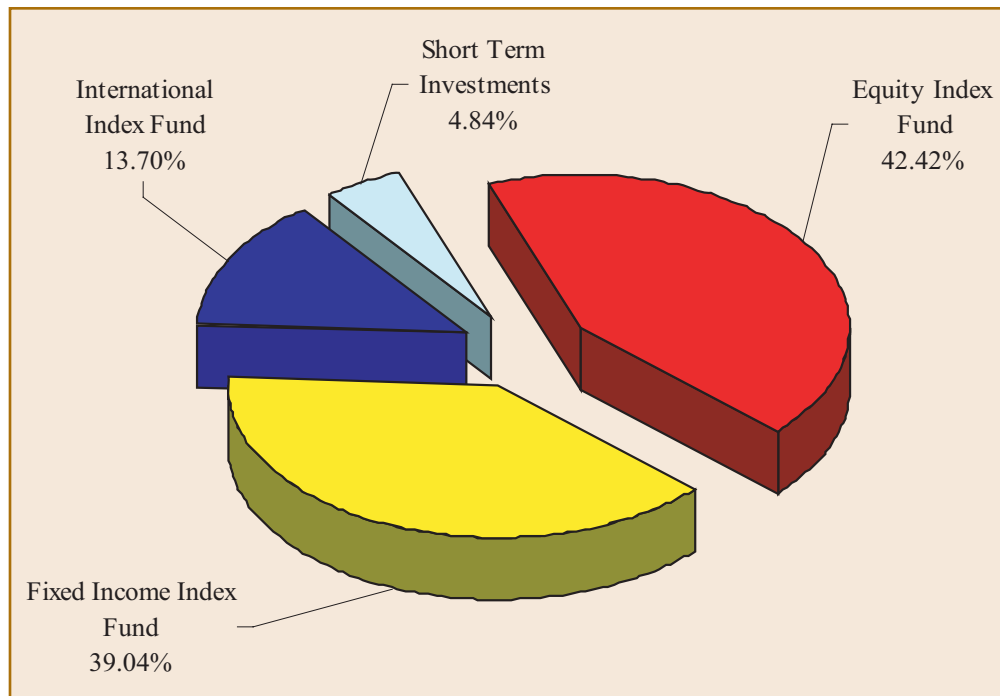
	<u>2006</u>	<u>2005</u>
Investment Manager Fee	<u>\$6,893</u>	<u>\$1,107</u>
Total	<u>\$6,893</u>	<u>\$1,107</u>

Schedule Of

Payments for Professional Consultants

For The Year Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Osborn, Carreiro & Associates, Inc.	\$10,000	\$17,000
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	<u>\$10,000</u>	<u>\$17,000</u>



Investment Portfolio Distribution
 June 30, 2006
 (Market Value)

Equity Index Fund	\$4,283,262
Fixed Income Index Fund	3,942,160
International Index Fund	1,383,808
Short Term Investments	<u>488,747</u>
Total Investments	<u>\$10,097,977</u>

COST METHOD

The “entry age normal” method was used to determine costs and liabilities. This is one of the methods that produce a level percent of pay cost from year to year. The amortization is a level percent of pay for 30 years. The amortization for Old Local liability is level dollar 30 year amortization.

PRE-RETIREMENT MORTALITY

None assumed

POST-RETIREMENT MORTALITY

The 1983 Group Annuity Mortality Table (“83 GAM”) was used. The life expectancy according to this table is as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
55	24.82 Years	30.23 Years
65	16.69 Years	21.28 Years
75	10.15 Years	13.37 Years

ASSUMED INVESTMENT RETURN

For Valuation purposes,
 Pre-retirement 7.00%
 Post-retirement 7.00%

SALARY GROWTH

The salaries are assumed to increase by 4% per year. There is more growth assumed based on age. Some rates according to this table are as follows:

<u>Age</u>	<u>Rate</u>
35	5.9%
45	5.2%
50	4.7%
55	4.7%
60	4.0%

DISABILITIES

Disabilities were assumed to follow a standard table. The number of disabilities per 1,000 active members at some sample ages is as follows:

<u>Age</u>	<u>Rate per 1,000</u>
35	0.8
40	2.0
45	2.6
50	4.9
55	8.9
60	14.1

EXPECTED RETIREMENT PATTERN

Because of the various eligibilities for retirement, the pattern at which retirement is expected to occur is very important. The rates at which retirement is expected to occur is as follows:

<u>Ages</u>	<u>Percent Retiring</u>
50 - 54	10%
55 - 56	12%
57 - 59	14%
60 - 61	18%
62 - 73	30%
74 +	100%

VOLUNTARY TERMINATIONS

Voluntary terminations were assumed to occur at a rate of 2.0% per year.

ASSET VALUATION

Market Value of Assets.

STATUTORY AUTHORITY:	The Old Local plans are governed by Arkansas Code Title 24, chapter 8, subchapters 3, 4, and 5. The Arkansas District Judge Retirement System was created by Acts 1374 and 1375 of 2003, which created subchapters 8 and 9.
EMPLOYER:	The city and/or county that sponsors a District (formerly Municipal) Court in Arkansas.
EMPLOYEE:	District (formerly Municipal) Judges. The District Court Clerk and other district court clerks as allowed in the Statutory Authority, locally enacted and reported to the system employed before January 1, 2005 are vested terminated participants of the system.
PLAN YEAR:	July 1 to June 30.
ACTUAL SERVICE:	Actual service (in months) served after January 1, 2005.
TOTAL SERVICE:	Actual Service plus service in an Old Local District Judges Plan.
COMPENSATION:	Total compensation excluding deferred compensation.
AVERAGE COMPENSATION:	The Participant's Average Compensation is the average of the final three calendar years of employment.
ACCRUED BENEFIT:	2.50% of Average Compensation times years of Actual Service at date of calculation.
NORMAL RETIREMENT:	
Eligibility	(a) Age 50 and 20 years of Total Service, OR (b) Age 60 and 16 years of Total Service, OR (c) Age 65 and 8 years of Total Service.
Benefits	2.50% of Average Compensation times years of Actual Service.
Form:	Joint & 50% Survivor, if married, or Life Annuity.
VESTING:	100% upon 8 years of Total Service.

Employee data needed for the valuation was obtained from the records furnished by the administrator. The following table shows a detailed breakdown of the present participants by the number of participants.

Years of Service

Age		<i>Years of Service</i>							Total
		0-5	5-10	10-15	15-20	20-25	25-30	30 and Over	
Under 25	Count	0	0	0	0	0	0	0	0
	Salary	0	0	0	0	0	0	0	0
25 - 29	Count	0	0	0	0	0	0	0	0
	Salary	0	0	0	0	0	0	0	0
30 - 34	Count	1	0	0	0	0	0	0	1
	Salary	28,686	0	0	0	0	0	0	28,686
35 - 39	Count	3	1	0	0	0	0	0	4
	Salary	128,468	85,096	0	0	0	0	0	213,564
40 - 44	Count	4	2	0	0	0	0	0	6
	Salary	103,022	77,918	0	0	0	0	0	180,940
45 - 49	Count	8	3	1	0	0	0	0	12
	Salary	336,174	179,425	20,773	0	0	0	0	536,372
50 - 54	Count	4	5	0	1	1	0	0	11
	Salary	91,108	322,112	0	21,875	29,680	0	0	464,775
55 - 59	Count	6	1	2	4	4	1	0	18
	Salary	279,221	24,676	137,277	170,783	150,948	25,586	0	788,491
60 - 64	Count	1	1	1	2	4	2	1	12
	Salary	15,074	60,038	25,062	116,247	276,441	91,253	16,998	601,113
65 & Over	Count	2	2	3	0	1	1	0	9
	Salary	62,000	59,094	340,241	0	18,948	19,230	0	499,513
Unknown Age	Count	0	0	0	0	0	0	0	0
	Salary	0	0	0	0	0	0	0	0
Total	Count	29	15	7	7	10	4	1	73
	Salary	1,043,753	808,359	523,353	308,905	476,017	136,069	16,998	3,313,454

Additional Schedules

For Fiscal Year 2006

Schedule Of

Revenues By Source

<u>Year Ending June 30</u>	<u>Employee Contributions</u>	<u>Employer & Other Entity Contributions</u>	<u>Misc.</u>	<u>Investment Income</u>	<u>Total</u>
2005	\$ 79,554	\$286,393	\$ 4,060	\$294,890	\$ 644,897
2006	\$166,707	\$597,362	0	\$592,400	\$1,356,469

Schedule Of

Expenses By Type

<u>Year Ending June 30</u>	<u>Benefit Payments</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
2005	\$494,794	648	\$297,940	\$793,382
2006	\$985,290	\$1,143	\$71,515	\$1,057,948

Schedule Of

Benefit Expenses By Type*

<u>Year Ended June 30</u>	<u>Age & Service</u>	
	<u>Retirees</u>	<u>Survivors</u>
2005	\$943,027	\$56,369
2006	\$883,085	\$57,432

* Expenses are based on June 30 benefit amounts annualized.

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