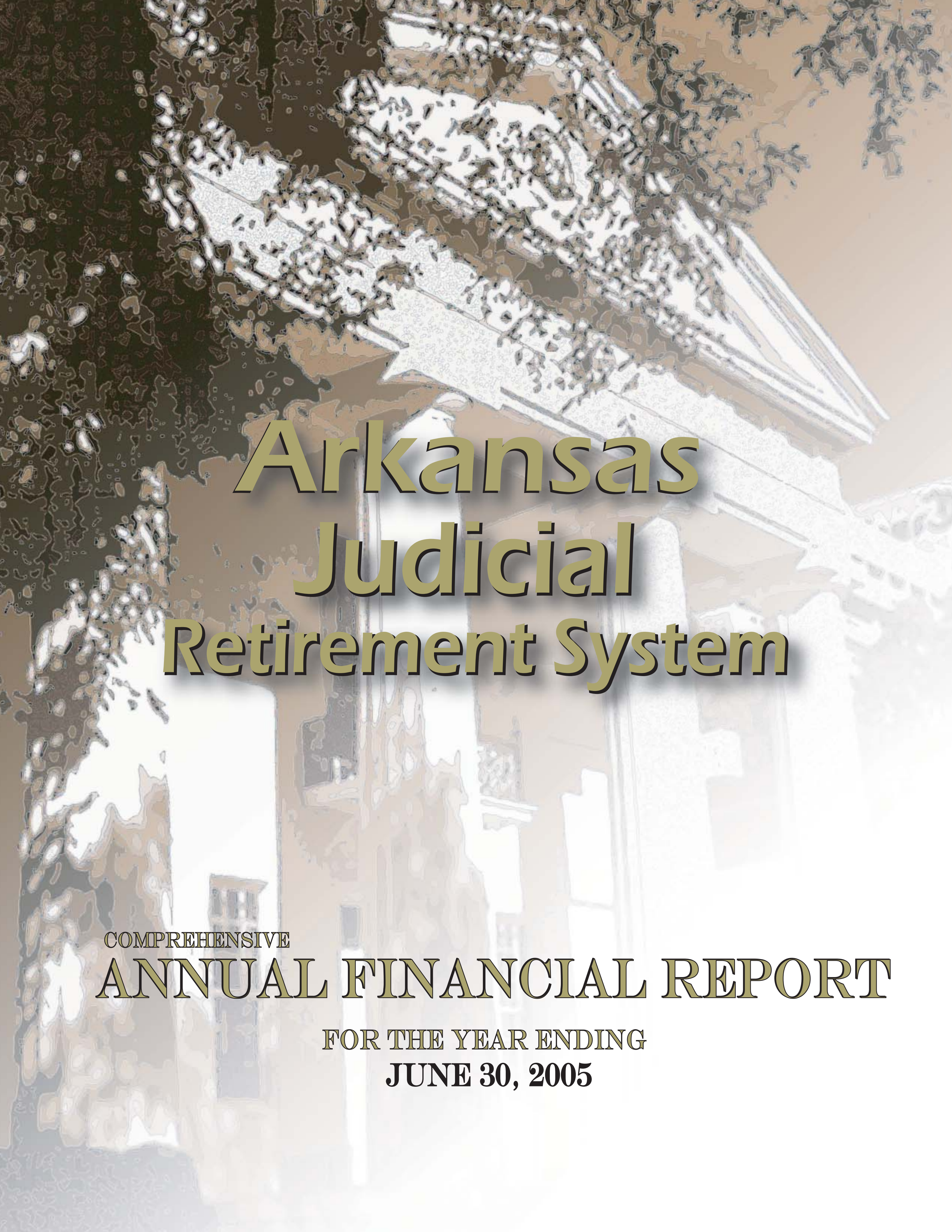

Arkansas Judicial Retirement System

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDING
JUNE 30, 2005

Arkansas
Judicial Retirement System

A Pension Trust Fund of the State of Arkansas

Comprehensive
Annual Financial Report
For the Year Ended June 30, 2005

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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A Brief History

Arkansas Judicial Retirement System

Established on March 28, 1953, with the passage of Act 365, the Arkansas General Assembly created the Arkansas Judicial Retirement System (AJRS).

This System provides for the retirement of all Circuit Judges, Court of Appeals Judges and Supreme Court Justices. Act 399 of 1999 created a Tier II benefit plan for all persons who become members of the System after the effective date of this Act. Any active member of the System prior to the effective date of Act 399 has until the end of the term in office in which the member is serving on the effective date to elect coverage under Tier II.

The statutes providing for and governing the Arkansas Judicial 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 Judicial Council.

This annual financial report, which covers the period from July 1, 2004 through June 30, 2005, provides comprehensive information about the System including statements of financial condition, investment objectives and policy, an actuarial report, historical and statistical information on active members, annuitants and benefit payments, as well as a description of the retirement plan.

ARKANSAS JUDICIAL RETIREMENT SYSTEM

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

December 17, 2005

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2005. The report is designed to provide a clear and concise picture of the financial conditions of the System. The report includes the following sections:

- Introduction
- Financial
- Investment
- Actuarial
- Statistical

Accounting System

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the Arkansas Judicial 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 2005 revenue from employer and employee contributions totaled $4.7 million. This amount is approximately $664,000 greater than fiscal year 2004.

Court fees for fiscal year 2005 were $902,800, the same amount as fiscal year 2004.

Phone Number (501) 682-7800 FAX Number (501) 682-7825 WATS Line 1-800-682-7377

Miscellaneous income was approximately $15,300 for fiscal year 2005, an increase of $15,300 from fiscal year 2004.

Net investment income for fiscal year 2005 was $10.9 million (after investment expenses of $765,300 (see page 29)), a decrease of $5.1 million from fiscal year 2004. Overall, the System's revenues decreased by $4.4 million from fiscal year 2004.

Expenses

Benefit payments for fiscal year 2005 were $6.8 million, or $0.3 million greater than fiscal year 2004. Administrative expenses were $42,700, of which $11,300 was for professional fees and $22,000 was transferred to APERS for indirect administrative costs.

Funding

The System is funded through contributions from the State, 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 has established 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 AJRS by a firm selected by the AJRS 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 AJRS is shown on page 12 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 Judicial 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.

Robert Edwards

Judge Robert Edwards
Chairman, AJRS Board

Gail H. Stone

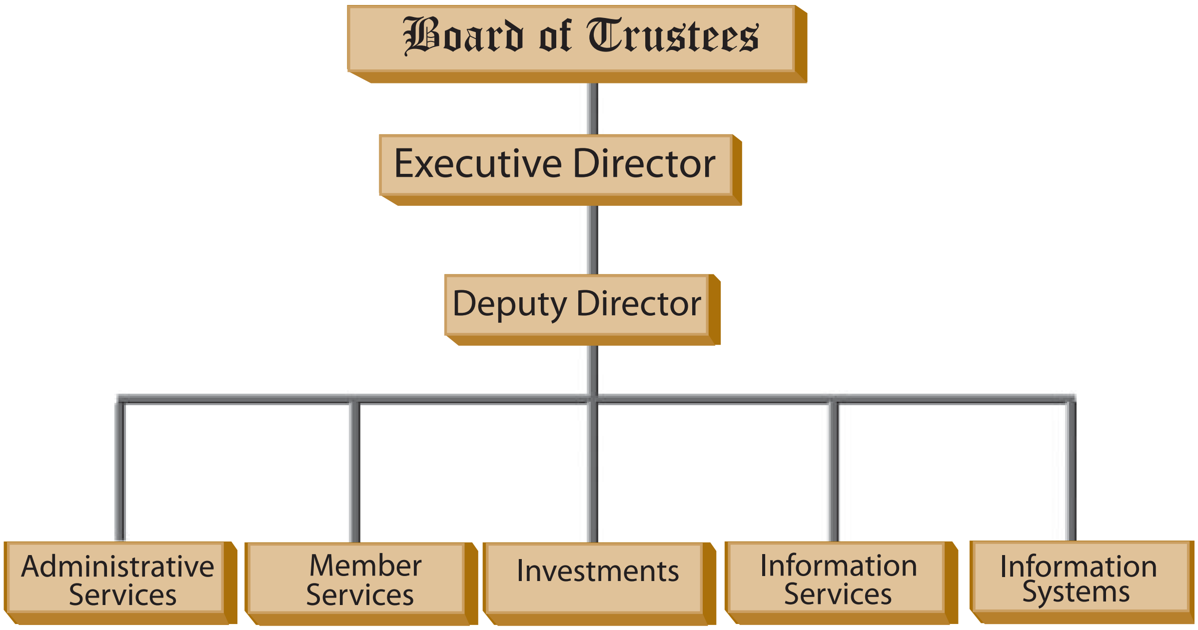
Gail H. Stone
Executive Director

Board of Trustees

Administrative Office

Gail H. Stone, Executive Director
Arkansas Judicial 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 Service Manager
Jackie Parrish	Member Service Manager
Jon Aucoin	Information Service Manager
Marcy Lindsey	Information Systems Manager

Professional Consultants

Custodian Bank
The Bank of New York
One Wall Street
New York, NY 10286

Actuary
Gabriel, Roeder, Smith & Company
Actuaries & Consultants
One Towne Square, Suite 800
Southfield, MI 48076

Investment Consultant
Callan Associates Inc.
Six Concourse Parkway, Suite 2900
Atlanta, GA 30328

Investment Managers

Loomis, Sayles & Company, L.P.
One Financial Center
Boston, MA 02111

Boston Partners Asset Management
28 State Street
Boston, MA 02109

Batterymarch Financial Management, Inc.
200 Clarendon Street
Boston, MA 02116

Capital Guardian Trust Co.
333 South Hope Street
Los Angeles, CA 90017

Membership Information
As of June 30, 2005

Active Members

Number	134
Average Age	55.9 Years
Average Years	10.9 Years
Average Annual Salary	$ 124,161

Total Retirees

Number	105
Average Monthly Benefit	$ 5,669

2005 Retirees

	Age and Service
Number	5
Average Age	68.4
Average Monthly Benefit	$ 6,094

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Financial Section

Financial

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Arkansas

Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Judicial Retirement System
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the fiduciary pension trust fund of the Arkansas Judicial Retirement System, an Office of Arkansas State government administered by the Arkansas Judicial Retirement System Board of Trustees, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of agency management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As indicated above, the financial statements of the Arkansas Judicial 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 Judicial Retirement System. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2005, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005 on our consideration of the Arkansas Judicial Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 2004-2005 fiscal year supplementary information on pages 27 and 28 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

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

DIVISION OF LEGISLATIVE AUDIT

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 9, 2005

172 STATE CAPITOL • LITTLE ROCK, ARKANSAS 72201-1099 • PHONE (501) 683-8600 • FAX (501) 683-8605 • TDD (501) 683-8610

Statements of Plan Net Assets
June 30, 2005 and 2004

ASSETS	**2005**	**2004**
Cash and Cash Equivalents	$ 1,449,455	$ 7,555,976
Receivables:		
Contributions	0	207,788
Investment Principal Receivable	468,112	925,373
Accrued Investment Income Receivable	618,236	526,128
Total Receivables	1,086,348	1,659,289
Investments, At Fair Value:		
Government Securities:		
U.S. Government Securities	5,794,904	5,205,944
U. S. Government Agency Securities	21,930,718	19,726,271
Corporate Securities:		
Asset Backed Securities	0	1,489,583
Collateralized Obligations	8,796,851	0
Corporate CMO	0	2,078,937
Corporate Bonds	22,552,622	20,096,881
Equity Securities	58,849,133	72,461,077
International Securities:		
Global Co-Mingled	21,579,273	0
Total Investments	$139,503,501	$121,058,693
Fixed Assets, Net *	0	0
TOTAL ASSETS	142,039,304	130,273,958
LIABILITIES		
Accrued Expenses and Other Liabilities	250,595	185,791
Investment Principal Payable	2,584,587	560,776
TOTAL LIABILITIES	2,835,182	746,567
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$139,204,122	$129,527,391

(A schedule of funding progress is presented on page 27.)

* Assets owned by the System are fully depreciated.

Statements of Changes in Plan Net Assets
For the Years Ending June 30, 2005 and 2004

	2005	2004
ADDITIONS		
Contributions:		
Employer	$ 3,872,189	$ 3,223,394
Employee	816,200	801,072
Court Fees	902,797	902,797
Total Contributions	5,591,186	4,927,263
Investment Income:		
Interest	2,712,959	2,438,679
Dividends	760,026	486,344
Investment Gain	8,188,294	13,671,873
Total Investment Income	11,661,279	16,596,896
Less: Investment Expense	765,342	636,987
Net Investment Income	10,895,937	15,959,909
Other Additions:		
Miscellaneous Additions	15,322	17
TOTAL ADDITIONS	16,502,445	20,887,189
DEDUCTIONS		
Benefits	6,776,490	6,438,128
Refunds of Contributions	6,491	0
Administrative Expenses	42,733	40,085
TOTAL DEDUCTIONS	6,825,714	6,478,213
NET INCREASE	9,676,731	14,408,976
NET ASSETS		
Beginning of Year	$129,527,391	$115,118,415
End of Year	$139,204,122	$129,527,391

Notes To The Financial Statements

For the Years Ending June 30, 2005 and 2004

Description of the System

General information - The Arkansas Judicial Retirement System (AJRS) is a single employer, defined benefit pension plan established on March 28, 1953.

This system provides for the retirement of all Circuit Judges, Court of Appeals Judges, and Supreme Court Justices. The laws governing operations of AJRS are set forth in Ark. Code of 1987 (Annotated) 24-8-204 through 24-8-228 and 24-8-701 through 24-8-717.

The administration and control of the System is vested in the Board of Trustees of AJRS, which includes five (5) members selected by the Arkansas Judicial Council.

Membership - As of June 30, 2005, there was one participating employer in the plan. In addition, supplemental contributions are paid to the system from the Constitutional and Fiscal Agencies Fund in accordance with Section 8 of Act 922 of 1983.

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

	2005	2004
Retirees and Beneficiaries Receiving Benefits	105	100
Terminated Plan Members Entitled To But Not Receiving Benefits	0	0
Active Plan Members	134	134

Contributions – Contribution provisions are established by state law and may be amended only by the Arkansas General Assembly. The contribution rate of each member of the System shall be 6% of annual salary (A.C.A. 24-8-209) for Tier I and 5% of annual salary (A.C.A. 24-8-706) for Tier II. When a judge is certified as eligible for retirement, no further contribution shall be required of him (A.C.A. 24-8-211) for Tier I and (A.C.A. 24-8-712) for Tier II. The employer contribution rate is 12% of salaries paid. In addition to the 12% employer rate and the statutory fees, the Chief Fiscal Officer of the State is required to transfer from the Constitutional and Fiscal Agencies Fund an amount that is equal to the difference between the mandatory contribution rate and the actuarially determined rate necessary to fund the plan (A.C.A. 24-8-210).

Plan Administration – Costs for administering the plan are paid out of the investment earnings.

Benefit Eligibility - An active member in Tier I with a minimum of ten (10) years of credited service may voluntarily retire upon reaching sixty-five (65) years of age or thereafter upon filing a written application with the Board. Any other Tier I member who has a minimum of twenty (20) years of credited service may retire regardless of age, and any deferred judge or justice who has served at least fourteen (14) years shall be eligible for benefits upon reaching age sixty-five (65) years.

In all cases of age and service retirement for judges or justices elected after July 1, 1983 and remaining in Tier I, the member must have a minimum of eight (8) years of actual service as a Justice of the Supreme Court or a judge of the Circuit Courts or the Court of Appeals. An active or former member in Tier II may retire at age 65 with eight (8) or more years of credited service, or after twenty (20) years of credited service regardless of age.

Increases After Retirement - For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased from time to time as the salary for the particular judicial office is increased or decreased. For all judges or justices first elected after July 1, 1983, and who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%. Authority for post retirement increases are: Tier I-(1) A.C.A. 24-8-218 (c) (1) (B) for judges first elected prior to 7-1-83 and (2) A.C.A. 24-8-223 for judges first elected after 7-1-83; Tier II-A.C.A. 24-8-715.

Summary of Significant Accounting Practices

Method of Accounting – The financial statements of the System presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned.

Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

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

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 $1,449,455 at June 30, 2005. This total consisted of cash deposits with financial institutions of $54,243, STIF accounts in the amount of $1,369,605, and $25,607 cash in state treasury.

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 not be able to recover collateral securities. The System’s deposit policy is to place deposits only in collateralized or insured accounts. As of June 30, 2005 none of the System’s bank balance of $54,243 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 Judicial 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. AJRS 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
Domestic Equities	41%	36%	46%
International Equities	15%	10%	20%
Fixed Income	44%	39%	49%

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

Investment Type	Fair Value
U.S. Government Agency Securities	$ 21,930,718
U.S. Government Securities	5,794,904
Collateralized Obligations	8,796,851
Corporate Bonds	22,552,622
Domestic Equity Securities	58,849,133
Global Commingled	21,579,273
Total	$139,503,501

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. Within the System's $139,503,501 investments at June 30, 2005, none was 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	$ 5,794,904	$2,164,758	$ 258,396	$	$ 3,371,750
US Government Agency	21,930,718	1,605,428	1,944,812	436,278	17,944,200
Collateralized Obligations	8,796,851		3,308,357	3,320,937	2,167,557
Corporate Bonds	22,552,622	1,450,956	9,301,333	9,437,986	2,362,347
Total	$59,075,095	$5,221,142	$14,812,898	$13,195,201	$25,845,854

Mortgage-Backed Securities - As of June 30, 2005 the System held mortgage-backed securities of approximately $18.4 million at fair value. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan type and geographic location of the related properties.

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

Asset-Backed Securities - As of June 30, 2005 the System held asset-backed securities with a fair value of approximately $8.8 million. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

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

Pooled Funds - AJRS has approximately $22 million invested in international pooled funds. AJRS could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

Credit Risk – Credit risk of investments is the risk that the issuer or other counterparty will not meet its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. The System does not have a formal investment policy for credit risk.

The System's exposure to credit risk as rated by Standard and Poor's (S&P) and Moody's Investor Service as of June 30, 2005 is as follows:

Standard & Poor's	
Rating	**Fair Value**
AGY	$19,636,984
AAA	11,203,229
AA	368,435
A	8,388,663
BBB	13,682,881
Totals	$53,280,192

Moody's Investor Service	
Rating	**Fair Value**
AGY	$18,380,478
Aaa	12,459,735
Aa	1,402,448
A	6,623,582
Baa	14,068,530
Not Rated	345,419
Totals	$53,280,192

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.

Legally Required Reserves

A description of reserve accounts and their balances for years ended June 30, 2005 and 2004 are as follows:

The Members' Deposit Account ("MDA") represents members' contributions held in trust until member's retirement, at which time contributions are 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.

	2005	2004
Members Deposit Account	$ 10,254,379	$ 10,947,941
Members Deposit Account Interest Reserve	698	698
Employer Accumulation Account	54,746,482	46,463,262
Retirement Reserve Account	74,202,563	72,115,490
Total	$139,204,122	$129,527,391

Actuarial Computed Liabilities - The total unfunded actuarial computed liability of the System as adjusted to fair value, based on Entry Age Normal Cost Method which is the Projected Benefit Method with a supplemental cost, used for determining required contributions as appears in the actuarial valuation, was $15,518,638 as of June 30, 2005.

Actuarial Present Value of	(1) Total Present Value	(2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1) - (2)
Benefits to be paid to current retirees, beneficiaries, and future beneficiaries of current retirees	$ 79,559,556	$ 0	$ 79,559,556
Age and service allowances based on total service likely to be rendered by present active members	96,630,413	31,064,322	65,566,091
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	1,560,468	1,308,857	251,611
Disability benefits likely to be paid to present active members	4,406,162	2,509,642	1,896,520
Death in service benefits likely to be paid on behalf of present active members (employer financed portion)	5,624,043	2,317,516	3,306,527
Total	$187,780,642	$37,200,337	$150,580,305
Applicable Assets (Funding Value)	135,061,667	0	135,061,667
Liabilities to be covered by future Contributions	$ 52,718,975	$37,200,337	$ 15,518,638

Actuarial Cost Method and Assumptions - The Board engages an independent firm of actuaries to estimate the present value of actuarial accrued liability and the pension benefit obligations for the purpose of determining required reserves for current and terminated participants, retired individuals and beneficiaries, and for the determination of employer contribution rates.

Actuarial accrued liabilities are those future periodic payments including lump sum distributions that are attributable to the service employees have rendered to date and the plan provisions of the System. The present value of actuarial accrued liabilities is calculated based on the entry age actuarial cost method with benefits based on projected salary increases.

The schedule above presents the primary actuarial assumptions used in the actuarial report dated June 30, 2005. The actuarial assumed interest rate of 7.0% was allocated to appropriate actuarial accrued liabilities.

Actuarial Gains and Losses - Actuarial gains and losses result from the differences between the actuarial accrued liability amount computed by the actuary and those same amounts reflected in the required supplemental schedules as of the date of the actuarial report. The net actuarial gain or loss increases or decreases the unfunded actuarial accrued liability based on the annual actuarial valuation.

The 2005 actuarial gains and losses were due to routine adjustments of actuarial assumptions and methodology as well as normal experience gains and losses. The resulting actuarial loss was $2.4 million.

Required Supplementary Information

The historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information.

Required supplementary information is included immediately following the notes to the financial statements.

Required Supplementary Information

Schedule of Employer Contributions
For Fiscal Years 1994-2005

Year	Annual Required Contribution	Percentage Contributed (1)
1994	$ 2,843,864	100%
1995	3,097,838	100
1996	3,291,509	100
1997	4,441,390	100
1998	3,650,957	100
1999	3,160,812	100
2000	3,183,709	100
2001	3,136,072	100
2002	3,319,233	100
2003	4,065,638	100
2004	4,126,190	100
2005	**4,774,986**	**100**

(1) Amounts are included per Act 922 of 1983, which authorizes an annual transfer from the Constitutional Officers Fund and the State Central Services Fund to provide full actuarial funding for the System. Because of the timing of this annual transfer, the actual percentage contributed in any single fiscal year may vary from the annual required contribution amount.

Schedule of Funding Progress (000)

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)
1996	$ 51,478	$ 63,452	$11,974	81.1%	$11,714	102%
1997	63,284	65,657	2,373	96.4%	12,422	19%
1998	77,175	71,274	(5,901)	108.3%	13,084	(45%)
1999	91,783	82,776	(9,007)	110.9%	13,891	(65%)
2000	107,059	83,211	(23,848)	128.7%	14,371	(166%)
2001	119,191	116,073	(3,118)	102.7%	14,869	(21%)
2002	124,212	124,734	522	99.6%	15,487	3%
2003	126,520	137,925	11,405	91.7%	15,935	72%
2004	129,065	141,775	12,710	91.0%	16,282	78%
2005	**135,062**	**150,580**	**15,519**	**89.7%**	**16,638**	**93%**

Note: Dollars in thousands.

* Unfunded Actuarial Accrued Liability

Note to Required Supplementary Information

Actuarial Assumptions - The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation date follows:

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry age
Amortization Method	
Tier 1	Level percent of payroll
Tier II	Level percent of payroll
Remaining Amortization Period	30 years
Asset Valuation Method	4 year smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.0%
Projected Salary Increases	4.0%
Including Price Inflation At	3.0%
Post-Retirement Cost-of-Living Increases:	
Pre July 1, 1983 Retirees	Increased with increases in active judges' pay
Post June 30, 1983 Retirees	3.0%, Compounded
Mortality Table	1994 Group Annuity Mortality Table

Supporting Schedules

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

	2005	2004
Custodian Bank Fees	$ 15,000	$ 15,000
Investment Consultant Fee	63,898	34,189
Investment Manager Fees	686,444*	587,798
Total	$765,342	$636,987

*Includes an unrelieved accrual of $396.

Schedule of Payments for Professional Consultants
For the Years Ended June 30, 2005 and 2004

	2005	2004
Gabriel, Roeder, Smith & Company	$11,300	$ 11,000
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	$11,300	$ 11,000

For fees paid to investment managers, please see "Schedule of Investment Fees" shown on page 43 in the Investment Section of this report.

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

	2005	2004
Communications		
Printing and Advertising	$ 4,918	$ 3,480
Travel	1,983	2,715
Purchases		
Office Supplies	0	19
Services and Charges		
Professional Fees & Services	11,300	11,000
Bank & Federal Service Charges	2,817	2,190
Total Service and Charges	14,117	13,190
Transfer to APERS for Administration	21,715	20,681
Total Administrative Expenses	$42,733	$40,085

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Investment Section

Investment

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CALLAN ASSOCIATES INC

Carl W. Deane
Senior Vice-President

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

September 12, 2005

Dear Trustees:

We are pleased to provide a brief review of the progress of the Arkansas Judicial Retirement System for the fiscal year ending June 30, 2005.

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

Introduction and Background

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

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

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

Fund Progress and Results

The AJRS portfolio structure is based on the Fund's Investment Policy. The target asset mix is established using an analysis of the financial needs of the Fund and the Trustees' tolerance for investment risk. The target asset mix and the actual allocation as of 6/30/05 are listed below:

	Target	Actual
Domestic Equity	41%	43%
Domestic Fixed	44%	42%
International Equity	15%	15%
Cash & Equivalents	0%	0%

The asset allocation is different from the target due to year-to-date (through 6/30/05) returns for equity.

6 Concourse Parkway, Suite 2900, Atlanta, Georgia 30328 Phone: 770-804-5585 Facsimile: 770-804-5586

For fiscal year ended 2005, the total fund rate of return, including gains, losses and income was 8.98%. This return is calculated using the time-weighted rate of return methodology endorsed by the CFA Institute. All performance results presented in the investment section of the CAFR are based on AIMR-PPS methodology.

Over the past 5 years, the Fund has had an annualized return of 4.72%. 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 2.5%. The return also failed to exceed the actuarially assumed interest rate assumption of 7%.

At the beginning of the fiscal year, the net assets of the fund totaled $129.5 million; at June 30, 2005, the net fund assets totaled $139.4 million. 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,

Carl W. Deane

Outline of Investment Policies

Introduction

The basic policy of the Board shall be to provide all the benefits specified by law to the members of the Arkansas Judicial Retirement System and their beneficiaries.

The Board shall manage the System's funds as provided by Ark. Code Ann. 24-2-601 through 24-2-619 (1997), and shall manage the funds of the System in accordance with the prudent investor rule, by giving consideration to both the funded and unfunded actuarial accrued liabilities and the period of time necessary to amortize all unfunded actuarial accrued liabilities, the anticipated long term return from both equities and bonds, the need for short term liquidity for disbursements to beneficiaries, the general economic conditions, the effects of inflation or deflation, and any other material actuarial, fiscal, or economic factors. The Board shall at all times act solely in the best interest of the beneficiaries of the System.

Investment Objectives

The Board's investment objective shall be to achieve a rate of return on the system's assets of at least two and one-half percent above the rate of inflation and a total return of the actuarially assumed rate of seven percent.

In pursuing this objective the Board shall attempt to maximize the total return in both income and capital appreciation, but with the greater emphasis being on the appreciation of capital. However, the effort to obtain maximum returns must be consistent with prudent risk-taking, and short-term fluctuations in market value shall be considered secondary to long-term results. The Board shall review individual investment decisions in context of the entire trust fund and as a part of an overall investment strategy and with risk and return objectives being reasonably suited to the entire fund.

Asset Allocation

The Board, with advice by investment consultants and investment managers, shall cause the System's funds to be invested primarily in equities and fixed income securities.

The System frequently has cash from dividends, interest, sale of securities, and contributions, and it is invested in very short-term, or overnight, investments. The Board is authorized to delegate its investment functions. Accordingly, the Board has employed investment managers that invest in both equities and fixed income securities and has employed a custodian bank that makes overnight investments with cash.

The Board, after consultation with investment consultants and investment managers, periodically will determine the allocation to be made with the System's assets. The Board currently has allocated 41% of the funds to domestic equity investments, 44% to domestic fixed income securities, 15% to international equities, with ranges of plus or minus 5% to be tolerated as transitory occurrences. Thus, the current asset allocation is to be as follows:

Domestic Equities	36% to 46%
Int'l Equities	10% to 20%
Fixed Income	39% to 49%

Review of Investment Processes

The Board is authorized to directly manage the System's funds or to delegate its investment function.

Currently the Board has delegated its investment function to investment managers and has delegated investment discretion to the Managers, by separate contract. The duties and responsibilities of each of the investment managers retained by the board shall include the following:

Outline of Investment Policies

Review of Investment Processes

(Continued)

A. Manage the assets the Manager holds in accordance with the policy guidelines and objectives expressed in this statement. If some deviation from this statement is deemed prudent and desirable by both the Board and Manager, they may accordingly modify in writing this policy statement.

B. Demonstrate satisfactory performance in investing the System's funds. In evaluating a Manager's performance the Board will give consideration to the investment conditions during the evaluation period, the Manager's style of investment, and these investment guidelines. The Board will determine the length of a reasonable demonstration period, but each Manager's performance will be reviewed at least annually. The Manager's performance will be compared against a neutral benchmark of 41% Standard & Poor's 500 Index and 44% Lehman Bros. Aggregate Index, and 15% MSCI EAFI Index as well as against a universe of similarly managed funds in the Investment Consultant's database. The Board may also consider how proxies are voted, the stockbrokers employed by the Investment Manager and the commissions paid to them.

C. Promptly informing the Board of significant changes in the Manager's corporate structure or strategies, including but not limited to the following:

1. Substantive changes in investment strategy, portfolio structure and market value of managed assets,

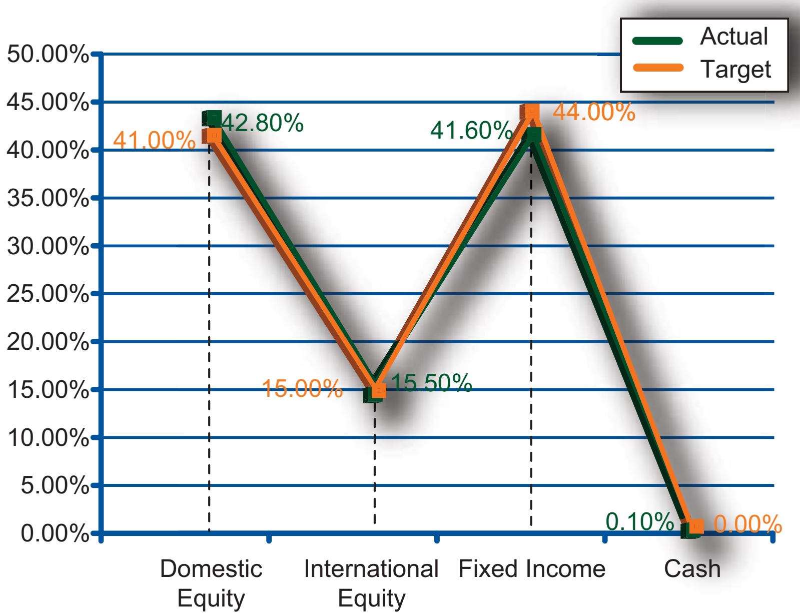
2. The Manager's progress in meeting the investment objectives set forth in this statement, and

3. Significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing, or clientele of the Manager.

D. Comply with all of the duties and responsibilities the Manager has as a fiduciary. In addition, the Fund's assets are to be invested with the care, skill, prudence, and diligence that a prudent professional investment manager would use in similar circumstances.

Actual vs. Target Asset Allocation

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



The line graph to the left shows the Fund asset allocation as of June 30, 2005. For each pair of points, the green points represent each asset class in the Actual Funds asset allocation as a percentage of all assets in the Fund.

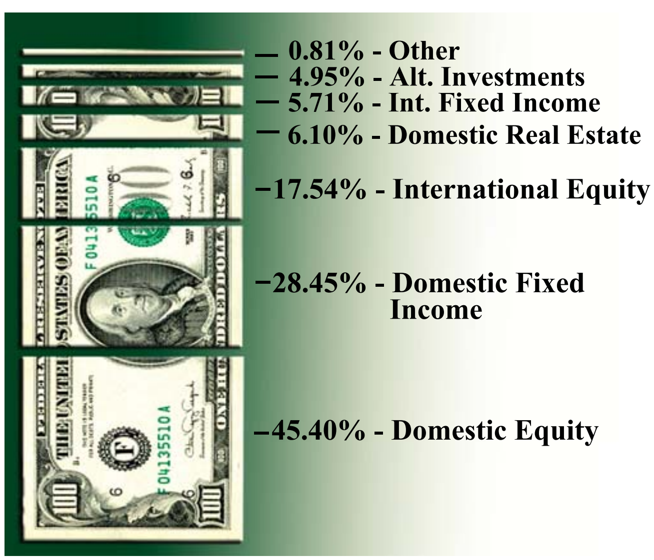
The brown points represent each asset class in the Fund's Target asset allocation as outlined in the investment policy statement.

The table below gives a more complete breakdown by asset class and dollar value for the percentages shown on the line graph.

Asset Class	$ 000s Actual	Percent Actual	Percent Target	Percent Difference	$000s Difference
Domestic Equity	$ 59,688	42.8 %	41 %	1.8 %	$ 2,544
International Equity	21,579	15.5	15	0.5	673
Fixed Income	57,918	41.6	44	(2.4)	(3,407)
Cash	189	0.1	0	0.1	189
Total	$139,374	100.0	100		

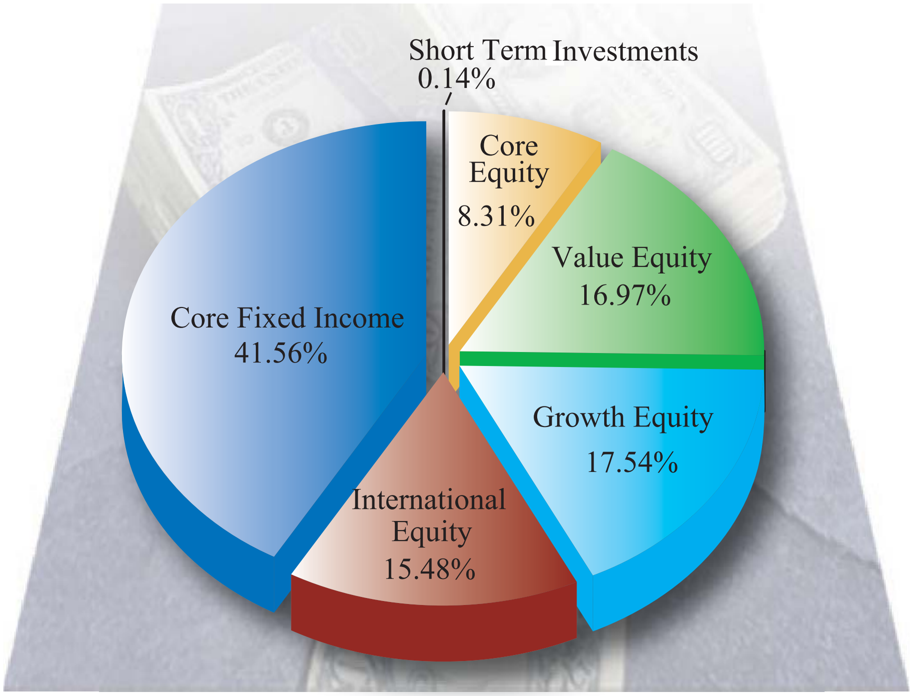
Public Plan Sponsor Database

This pyramid graph to the right shows the average percentages of the overall asset allocation by asset type for the Callan Associates Inc. Public Plan Sponsor Database.



Manager Distribution

For the Period Ended June 30, 2005



Investment Portfolio Distribution
June 30, 2005
(Market Value)

Core Equity		
	Batterymarch Financial Management	$ 11,577,054
Value Equity		
	Boston Partners	23,658,065
Growth Equity		
	Loomis Sayles & Co.	24,452,972
International Equity		
	Capital Guardian	21,579,273
Core Fixed Income		
	Loomis Sayles & Co.	57,918,365
Short Term Investments		189,139
Total Investments		$139,374,868

Performance Comparisons
Fiscal Years Ended June 30

Fiscal Years Ended June 30	2005	2004	2003	2002	2001
Total Fund:					
Arkansas Judicial Retirement System	8.98 %	14.19 %	5.03 %	(2.92) %	(0.87) %
Callan Total Public Fund Median	9.22	14.96	3.74	(5.15)	(4.06)
Inflation (Consumer Price Index)	2.59	3.17	2.10	0.74	3.19
Equities:					
Arkansas Judicial Retirement System	10.86	24.36	(0.75)	(11.62)	(12.05)
Callan Total Equity Database Median	8.33	23.54	(0.15)	(15.84)	(5.29)
Standard & Poor's 500 Index	6.32	19.11	0.25	(17.99)	(14.83)
Fixed Income:					
Arkansas Judicial Retirement System	6.68	0.64	9.59	7.18	11.99
Callan Total Fixed Income Database Median	6.82	0.71	10.58	7.86	11.03
Lehman Bros. Aggregate Index	6.80	0.32	10.40	8.63	11.22

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

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

		Annualized	
Fiscal Years Ended June 30	**2005**	**3-Year**	**5-Year**
Total Fund:			
Arkansas Judicial Retirement System	8.98 %	9.37 %	4.72 %
Callan Total Public Fund Median	9.22	9.12	3.92
Inflation (Consumer Price Index)	2.59	2.62	2.36
Equities:			
Arkansas Judicial Retirement System	10.86	11.02	1.24
Callan Total Equity Database Median	8.33	9.54	0.08
Standard & Poor's 500 Index	6.32	8.28	(2.37)
Fixed Income:			
Arkansas Judicial Retirement System	6.68	5.65	7.19
Callan Total Fixed Income Database Median	6.82	5.89	7.36
Lehman Bros. Aggregate Index	6.80	5.76	7.40

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

Portfolio Characteristics
Fiscal Years Ended June 30, 2005 and 2004

	6/30/05	6/30/04
Selected Bond Characteristics:		
Yield to Maturity (Market)	4.50 %	4.65 %
Current Yield	5.06	5.16
Average Coupon Rate	5.15	5.25
Average Maturity	6.10 Yrs.	6.61 Yrs.
Quality Breakdown:		
AAA (Including Govts. & Agencies)	57.6 %	49.6 %
AA	2.3	2.5
A	7.6	8.1
BAA	31.7	28.7
*Cash	0.8	11.1
Selected Stock Characteristics:		
Average P/E Ratio	19.59 x	17.67 x
Estimated Earnings Growth Rate (Next 5 Years)	15.43 %	13.22 %
Current Yield	1.09 %	0.91 %

* Includes Short-Term Investment Fund.

Source: Callan Associates.

List of Ten Largest Assets Held
As of June 30, 2005

Fixed Income Holdings (By Market Value)

Par	Description	Coupon	Maturity	Market Value
$2,035,000	US Treasury Bond	5.250 %	02/15/29	$ 2,327,450
2,170,000	US Treasury Bill	0.000 %	07/14/05	2,164,758
1,585,000	FHLMC Pool #820263	5.000 %	07/01/34	1,570,640
1,280,000	FNMA Pool #725690	6.000 %	08/01/34	1,312,731
1,155,002	FNMA Pool #725773	5.500 %	09/01/34	1,171,484
1,092,227	FNMA Pool #728709	5.500 %	07/01/33	1,108,174
885,000	US Treasury Bond	5.375 %	02/15/31	1,044,300
868,708	GNMA II Pool #3415	5.500 %	07/20/33	886,230
844,069	FHLMC Group #B13309	4.500 %	04/01/19	841,047
800,000	Federal National Mortgage Association	5.250 %	04/15/07	819,500
	Total			$13,246,314

Equity Holdings (By Market Value)

Shares	Description	Market Value
3,300	Google Inc. C1A	$ 970,695
17,450	Procter & Gamble Co.	920,488
49,225	Motorola Inc.	898,849
13,750	Johnson & Johnson	893,750
8,562	Legg Mason Inc.	891,390
25,350	General Electric Co.	878,378
30,700	Intel Corporation	800,042
13,850	Exxon Mobil Corp	795,960
16,877	Citigroup Inc.	780,224
13,429	Marathon Oil Corp	716,706
	Total	$8,546,482

International Equity Holdings (By Market Value)

Description	Market Value*
Vodafone	$ 642,917
Royal Dutch Petroleum	571,184
Sanofi-Aventis	568,324
Sumitomo Mitsui Financial Group	428,080
Novartis	416,507
AstraZeneca	380,553
BNP Paribas	376,892
Royal Bank of Scotland Group	350,511
ABN AMRO	339,696
Samsung Electronics	338,560
Total	$4,413,224

* Market Value represents AJRS percentage of investment in international commingled funds.

Schedule of Brokerage Commissions
As of June 30, 2005

Brokerage Firm	Number of Shares Traded	Total Commission	Commission Per Share
Goldman Sachs	436,782	$ 11,903	0.03
Merrill Lynch	301,900	11,604	0.04
UBS	238,725	10,868	0.05
B-Trade Services	444,750	10,593	0.02
Bear Stearns	230,563	9,179	0.04
Jefferies & Company	337,664	9,030	0.03
CS First Boston Global	298,690	8,975	0.03
CITIGROUP Global Markets	155,500	7,648	0.05
Banc of America Securities LLC	151,385	7,206	0.05
Lehman Brothers	211,840	6,366	0.03
Morgan Stanley	149,600	6,281	0.04
JP Morgan Securities	126,325	5,889	0.05
Weeden & Co.	269,660	5,521	0.02
Thomas Weisel Partners	123,150	5,103	0.04
Factset Data Systems, Inc.	94,600	4,730	0.05
Instinet	230,625	4,609	0.02
Deutsche Bank Securities	108,325	4,285	0.04
Sanford C. Berstein & Co.	74,600	3,279	0.04
Prudential	80,625	2,758	0.03
Liquidnet Inc.	127,525	2,694	0.02
Others (includes 63 brokerage firms)	1,302,160	42,721	0.03
	5,494,994	$181,242	0.03

Schedule of Investment Fees
As of June 30, 2005

Equities	**Market Value**	**Fee**	**Basis Points**
Loomis, Sayles	$24,452,972	$ 96,934	38
Batterymarch Financial Management	11,577,054	105,969	85
Boston Partners	23,658,065	156,532	58
Total Equity	$59,688,091	$359,435	
Fixed Income	**Market Value**	**Fee**	**Basis Points**
Loomis, Sayles	$57,918,365	$210,105	38
Total Fixed Income		$210,105	
International Equity	**Market Value**	**Fee**	**Basis Points**
Capital Guardian Trust	$21,579,273	116,508	71
Other Services		**Fee**	
Bank of New York (Custodian)		$ 15,000	
Callan Associates (Consultant)		63,898	
Total Other Services		$ 78,898	
Total Investment Service Fees		$764,946	

Comparative Schedule of Investments
For the Fiscal Years Ended June 30, 2005 and 2004

	2005	2004
U.S. Government Securities		
U. S. Government Securities	$ 5,794,904	$ 5,205,944
U. S. Government Agency Securities	21,930,718	19,726,271
Corporate Securities		
Asset-Backed Securities	0	1,489,583
Collateralized Obligations	8,796,851	0
Corporate CMO	0	2,078,937
Corporate Bonds	22,552,622	20,096,881
Common Stock	58,849,133	72,461,077
International Securities		
Global Co-Mingled	21,579,273	0
Short-Term Investments	1,369,605	7,504,469
Total Investments	$140,873,106	$128,563,162

Actuarial Section

Actuarial

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GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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

November 10, 2005

The Board of Trustees
Arkansas Judicial Retirement System
Little Rock, Arkansas

Dear Board Members:

The basic financial objective of the Arkansas Judicial Retirement System (AJRS) 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 AJRS 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 cost assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2005.

The AJRS 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 actuarial report included the following supporting schedules for use in 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 Member 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, 2005 valuations were based upon assumptions that were recommended in connection with a study of experience through June 30, 2001.

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

Respectfully submitted,

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

Summary of Assumptions Used for Arkansas Judicial Actuarial Valuations

Assumptions adopted by Board of Trustees after consulting with the Actuary

Economic Assumptions

The investment return rate used in making the valuation was 7.0% per year, compounded annually (net after administrative and investment expenses).

Pay increase assumptions for individual active members are shown on page 51. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. This wage inflation assumption consists of 3.0% for price inflation and 1.0% for real wage growth.

Total active member payroll is assumed to increase 4.0% per year, which is the portion of the individual pay increase assumptions recognizing inflation.

The number of active members is assumed to continue at the present number.

Non - Economic Assumptions

The mortality table used to measure retired life mortality was the 1994 Group Annuity Mortality Table. This table and values are shown on page 50.

The probabilities of retirement for members eligible to retire are shown on page 52.

The probabilities of withdrawal from service, death-in-service, disability, or other reasons are shown for sample ages on page 51.

95% of active members are assumed to be married at the time of retirement or death in service, and the spouse is assumed to be three years younger than the member.

The entry age actuarial cost method of valuation was used in determining annuity liabilities and normal cost. Under this method:

- ▲ Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of the actuarial accrued liabilities.
- ▲ Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (principal and interest) which are level percent of payroll contributions.

Funding value of assets (cash & investments) was determined by phasing in differences between actual market return and the assumed rate of return over a four-year period.

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

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

Summary of Actuarial Methods and Assumptions - June 30, 2005 Valuation

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry age
Amortization Method	
Tier I	Level percent of payroll
Tier II	Level percent of payroll
Remaining Amortization Period	30 years
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Projected Salary Increases	4.0%
Including Price Inflation At	3.0%
Post-Retirement Cost-of-Living Increases:	
Pre July 1, 1983 Retirees	Increased with increases in active judges' pay
Post June 30, 1983 Retirees	3.0%, Compounded
Mortality Table	1994 Group Annuity Mortality Table

Pre-July 1, 1983 Hires*

Sample Ages	Present Value of $1 Monthly for Life		Present Value of $1 Monthly for Life Increasing 4% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
50	$ 147.78	$ 154.93	$ 237.09	$ 257.98	30.69	34.89
55	138.58	147.42	212.68	235.17	26.15	30.17
60	127.35	137.85	186.69	210.13	21.83	25.59
65	114.51	126.50	160.21	183.92	17.84	21.28
70	100.68	113.58	134.44	157.28	14.29	17.30
75	85.70	98.39	109.28	129.67	11.12	13.60
80	70.13	81.90	85.62	102.86	8.37	10.31

Sample Ages	$100 Benefit Increasing 4.0 % Annually	Portion of Age 65 Lives Still Alive	
		Men	Women
65	$ 100.00	100 %	100 %
70	121.67	91	95
75	148.02	79	87
80	180.09	62	75
85	219.11	42	58

For disabled members, mortality rates from the mortality table are set forward 10 years.

Post June 30, 1983 Hires*

Sample Ages	Present Value of $1 Monthly for Life Increasing 3% Annually	
	Men	Women
50	$208.24	$224.03
55	189.32	206.95
60	168.45	187.47
65	146.52	166.38
70	124.57	144.28
75	102.56	120.61
80	81.31	96.94

Sample Ages	$100 Benefit Increasing 3.0 % Annually
65	$100.00
70	115.93
75	134.39
80	155.80
85	180.61

*Single Life Retirement Values. Based on 1994 Group Annuity Mortality Table and 7.0% Interest.

Summary of Actuarial Methods and Assumptions - June 30, 2005 Valuation

Separation from Active Employment Before Age and Service Retirement

Percent of Active Members Separating Within The Next Year

Sample Ages	Years of Service	Male Death	Male Disability	Female Death	Female Disability	Withdrawal For Other Reasons (Male and Female)
	0					10.00%
	1					6.00
	2					4.20
	3					3.36
	4					3.02
30	5+	0.08%	0.08%	0.04%	0.10%	1.00
35		0.09	0.08	0.05	0.10	1.00
40		0.11	0.20	0.07	0.36	1.00
45		0.16	0.26	0.10	0.41	1.00
50		0.26	0.49	0.14	0.57	1.00
55		0.44	0.89	0.23	0.77	1.00
60		0.80	1.41	0.44	1.02	1.00
65		1.45	1.66	0.86	1.23	1.00

Pay Increase Assumptions for an Individual Member

Sample Ages	Merit & Seniority	Base (Economic)	Increase Next Year
30	0.00 %	4.00 %	4.00 %
35	0.00	4.00	4.00
40	0.00	4.00	4.00
45	0.00	4.00	4.00
50	0.00	4.00	4.00
55	0.00	4.00	4.00
60	0.00	4.00	4.00
65	0.00	4.00	4.00

Summary of Actuarial Methods and Assumptions - June 30, 2005 Valuation

Probabilities of Retirement for Members Eligible to Retire

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
50	6 %
51	6
52	8
53	8
54	10
55	12
56	12
57	14
58	14
59	14
60	18
61	18
62	30
63	30
64	30
65-79	30
80 & Over	100

Retirement Ages	Percent of Eligible Active Members Electing Early Retirement Within Next Year
62	2 %
63	2
64	2

A member was assumed eligible to retire at age 50 with 20 years of service, or at age 65 with 10 years of service. A member was assumed eligible to retire early at age 62 with 14 years of service.

Schedule of Active Member Valuation Data

Active Members - Historic Comparative Schedule

Valuation Date June 30	Active Members Number	Annual Valuation Payroll ($ Millions)	Average Pay Dollars	Average Pay % Increase
1991	112	$ 7.6	$ 67,981	N/A
1992	112	7.9	70,679	4.0%
1993	117	10.0	85,286	20.7
1994	117	10.5	89,783	5.3
1995	119	11.0	92,287	2.8
1996	121	11.7	96,810	4.9
1997	125	12.4	99,376	2.7
1998	125	13.1	104,673	5.3
1999	129	13.9	107,679	2.9
2000	130	14.4	110,545	2.7
2001	131	14.9	113,502	2.7
2002	133	15.5	116,441	2.6
2003	134	15.9	118,915	2.1
2004	134	16.3	121,505	2.2
2005	**134**	**16.6**	**124,161**	**2.2**

Short Condition Test – Comparative Statement

The AJRS 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 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) Member accumulated contributions;
2) The liabilities for future benefits to present retired lives;
3) The employer financed portion of liabilities for service already rendered by non-retired members.

In a system that has been following the discipline of level percent of payroll financing, active member contributions (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets. 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.

	Entry Age Accrued Liability				Portion of Present Values Covered By Valuation Assets			
Valuation Date June 30	(1) Active Members Contr.	(2) Retirees And Benef.	(3) Active Member (Employer Financed Portion)	Present Assets	(1)	(2)	(3)	Total
			($ in Thousands)					
1994	$ 3,720	$ 25,161	$ 25,263	$ 37,310	100%	100%	33%	69%
1995(a)	4,261	28,845	26,627	41,095	100	100	30	69
1996(a)	4,828	32,063	26,561	51,478	100	100	55	81
1997	5,418	33,295	26,944	63,284	100	100	91	96
1998	6,067	33,218	31,989	77,175	100	100	118	108
1999	6,817	38,040	32,486	91,783	100	100	144	119
1999(a)	6,817	38,040	37,919	91,783	100	100	124	111
2000(a)	7,740	39,255	36,217	107,059	100	100	166	129
2001	8,522	42,713	38,532	119,191	100	100	176	133
2001(a)	8,522	54,712	52,839	119,191	100	100	106	103
2002	9,316	53,046	57,544	124,212	100	100	107	104
2002(a)	9,316	54,216	61,202	124,212	100	100	99	99
2003	10,147	74,060	53,718	126,520	100	100	79	92
2004	10,948	74,227	56,600	129,065	100	100	78	91
2005	**10,254**	**79,560**	**60,766**	**135,062**	**100**	**100**	**74**	**90**

(a) After changes in benefit provisions and/or actuarial assumptions and methods.

Retirees and Beneficiaries as of June 30, 2005

Tabulated by Attained Age

	Retirees		Survivors/ Beneficiaries		Total	
Attained Age	No.	Annual Allowances	No.	Annual Benefits	No.	Annual Allowances
47			1	$ 45,024	1	$ 45,024
57	1	$ 73,620			1	73,620
58	1	81,180			1	81,180
59	1	74,016			1	74,016
60	3	194,676	2	114,804	5	309,480
61			1	51,228	1	51,228
62	3	262,488	2	98,496	5	360,984
63			1	52,620	1	52,620
64	2	148,020	1	52,872	3	200,892
65	1	78,528			1	78,528
67	5	413,904			5	413,904
68	7	513,012			7	513,012
69	3	215,544			3	215,544
70	6	483,000			6	483,000
71	2	154,740	1	49,584	3	204,324
72	1	85,284			1	85,284
73	4	300,036			4	300,036
74	2	145,308	1	49,584	3	194,892
75	2	142,992			2	142,992
76	2	152,328	2	99,180	4	251,508
77	1	74,016	3	148,764	4	222,780
78			2	99,180	2	99,180
79	4	360,156	1	49,584	5	409,740
80	4	286,272	1	51,228	5	337,500
81	3	258,984			3	258,984
82	1	77,688	3	148,764	4	226,452
83	1	74,016	1	49,584	2	123,600
84	2	148,020			2	148,020
85	2	150,468	1	49,584	3	200,052
86			1	48,492	1	48,492
87	1	74,011	1	44,364	2	118,375
88	1	74,016	1	49,584	2	123,600
89	2	151,692			2	151,692
90			2	102,456	2	102,456
91	1	74,016			1	74,016
92			2	106,728	2	106,728
93			2	106,728	2	106,728
94			1	49,584	1	49,584
96			1	52,872	1	52,872
99			1	49,584	1	49,584
Totals	**69**	**$ 5,322,031**	**36**	**$ 1,820,472**	**105**	**$ 7,142,503**

Active Members as of June 30, 2005

By Attained Age and Years of Service

Tier I

Attained Age	Years of Service to Valuation Date: 0-4	5-9	10-14	15-19	20-24	25-29	No.	Totals Valuation Payroll
40-44		2					2	$ 246,702
45-49								
50-54		5	5	1		1	12	1,488,372
55-59		6	11	3	1		21	2,598,529
60		1	2	1	1		5	616,755
61			3				3	370,053
62		1	1				2	250,782
63			1				1	123,351
64		2	3	1			6	756,424
65				2			2	250,782
67			1		1		2	246,702
71				1			1	123,351
72				1			1	123,351
Totals		**17**	**27**	**10**	**3**	**1**	**58**	**$7,195,154**

Tier II

Attained Age	Years of Service to Valuation Date: 0-4	5-9	10-14	15-19	20-24	25-29	No.	Totals Valuation Payroll
35-39	1						1	$ 123,351
40-44	4	1	1				6	744,186
45-49	9		1				10	1,237,590
50-54	10	4	5	2			21	2,590,371
55-59	10	1	3	4	4		22	2,717,802
60					1		1	123,351
61	3				1	1	5	628,993
62					1		1	123,351
63				1	1		2	250,782
64					1		1	123,351
65	1						1	142,140
66				1	1		2	250,782
67					1	1	2	263,018
68					1		1	123,351
Totals	**38**	**6**	**10**	**8**	**12**	**2**	**76**	**$9,442,419**

Averages

Group	No.	Age	Service	Annual Pay
Tier I	58	58.1 years	12.6 years	$124,054
Tier II	76	54.3	9.6	$124,242
Total	134	55.9	10.9	$124,161

Analysis of Financial Experience

Year ended June 30, 2005

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

		Total
(1)	UAAL* at start of year	$12,709,846
(2)	Normal cost from last valuation	4,155,082
(3)	Employer contributions	4,790,309
(4)	Interest accrual: (1)*.070 + ((2) - (3))* .035	867,456
(5)	Expected UAAL before changes: (1) + (2) - (3) + (4)	12,942,075
(6)	Change in actuarial assumptions@	198,154
(7)	Expected UAAL after changes: (5) + (6)	13,140,229
(8)	Actual UAAL at end of year	15,518,638
(9)	Gain (loss): (7) - (8)	$ (2,378,409)
(10)	Gain (loss) as percent of actuarial accrued liabilities at start of year: $141,774,511	(1.7) %

* Unfunded actuarial accrued liability.

@ Including transfers and data changes.

Analysis of Financial Experience

Gains and Losses By Risk Area

Year Ended June 30, 2005

Type of Risk Area	Gain (Loss) During Year: $ in Millions	Gain (Loss) During Year: Percent of Liabilities
ECONOMIC RISK AREAS		
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. This includes gains and losses related to Tier I pre-July 1, 1983 retired member increases.	$ 1.0	0.7 %
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(1.8)	(1.3) %
NON-ECONOMIC RISK AREAS		
Age & Service Retirements 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.	0.4	0.3 %
Disability Retirements If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.3	0.2 %
Death-in-Service Benefits If there are fewer claims than assumed, there is a gain. If more, a loss.	0.1	0.1 %
Withdrawal If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(0.3)	(0.2) %
Retiree Mortality If there are fewer deaths than assumed, there is a loss. If more, a gain.	(1.6)	(1.1) %
Other Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources.	(0.5)	(0.4) %
Experience Gain/(Loss)	**$ (2.4)**	**(1.7) %**

Summary of Plan Provisions

July 1, 2005

Tier I	Tier II
Description	
Elected or appointed prior to the effective date of Act 399 of 1999 and who do not elect to participate in Tier II.	Elected or appointed after the effective date of Act 399 of 1999 or electing to participate in Tier II by October 28, 1999.
Regular Retirement	
An active member may retire at age 65 with 10 or more years of credited service, or after 20 years of credited service regardless of age. Persons who become members after June 30, 1983, must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts or the Court of Appeals.	An active member or former member may retire at age 65 with 8 or more years of credited service, or after 20 years of credited service regardless of age.
Compulsory Retirement	
Any judge or justice who attains 70 years of age during a term of office to which he has been elected may complete the term without forfeiting rights to retirement benefits. Any judge or justice who is not eligible to retire at age 70 may continue to serve as judge until completion of the term in which there has accrued sufficient credited service to retire. Otherwise, judges or justices must retire by their 70th birthday or lose their retirement benefits.	Any judge or justice who attains 70 years of age during a term of office to which he has been elected may complete the term without forfeiting rights to retirement benefits. Any judge or justice who is not eligible to retire at age 70 may continue to serve as judge until completion of the term in which there has accrued sufficient credited service to retire. Otherwise, judges or justices must retire by their 70th birthday or lose their retirement benefits.
Final Salary	
A member's salary at the end of the last judicial office.	A member's salary at the end of the last judicial office.
Age & Service Annuity	
Sixty percent of the judge's final salary, for life.	3.2% of the salary of the last judicial office held multiplied by the number of years of service not to exceed 80% of the salary of the last judicial office held.
Deferred Retirement	
An inactive member who has 14 or more years of credited service and left judicial service before attaining age 65 will be entitled to an age and service annuity beginning at age 65. Persons who become members after June 30, 1983 must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts or the Court of Appeals.	An inactive member who has 8 or more years of credited service and left judicial service before attaining age 65 will be entitled to an age and service annuity beginning at age 65.

Summary of Plan Provisions

July 1, 2005

Disability Retirement

Tier I

An active member with 3 or more consecutive years of credited service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity. The 3 years service is not required for persons who were members before July 1, 1983.

Tier II

An active member with 3 or more consecutive years of credited service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity, except that the benefit shall not be less than 25.6% of final salary.

Early Retirement

Tier I

A member who became a member before July 1, 1983, and who has 18 but less than 20 years credited service may retire, regardless of age, and receive an immediate annuity. The amount is the full age and service amount reduced proportionately for service less than 20 years.

A member with 14 years credited service may retire between ages 62 and 65 and receive an immediate annuity. The amount is the full age and service amount reduced 1/2 of 1% for each month retirement age is younger than age 65. Persons who become members after June 30, 1983, must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts, or the Court of Appeals.

Tier II

A member with 8 years credited service may retire between ages 62 and 65 and receive an immediate annuity. The amount is the full age and service amount reduced 1/2 of 1% for each month retirement age is younger than age 65.

Survivor Benefits

Tier I

Upon the death of a member with 3 or more years of service, before or after retirement, an annuity of 67% of the judge's benefit is payable to the following survivors (shared if there is more than one eligible survivor):

- A surviving spouse married to the judge more than 1 year at the time of death.
- A minor child of the judge.

The 3-year service requirement is not required of those who became members prior to July 1, 1983.

Tier II

Upon the death of a member with 3 or more years of service, before or after retirement, an annuity of 67% of the judge's benefit, but not less than 17.152% of the final salary, is payable to the following survivors (shared if there is more than one eligible survivor):

- A surviving spouse married to the judge more than 1 year at the time of death.
- A minor child of the judge.

The 3-year service requirement is not required of those who became members prior to July 1, 1983.

Summary of Plan Provisions — July 1, 2005

Increases After Retirement

Tier I

For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased from time to time as the salary for the particular judicial office is increased or decreased.

For all judges or justices first elected after June 30, 1983, and who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%.

Tier II

For all judges or justices who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%.

Member Contributions

Tier I

Active members contribute 6% of their salaries. Members with 20 or more years of service and members age 65 or older with 10 years or more years of service do not contribute to the retirement system.

If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

Tier II

Active members contribute 5% of their salaries. Members with 25 or more years of service do not contribute to the retirement system.

If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

Statistical Section

Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Benefit Expenses by Type

Schedule of Retired Members by Type of Benefit

Statistical Graphs

Statistical

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Schedule of Revenues By Source

For the Fiscal Years 2000-2005

Year Ending June 30	Employee Contributions	Employer & Other Entity Contributions	Court Fees	Misc.	Investment Income	Total
2000	$732,545	$3,183,709	$870,629	$218,263	$11,231,322	$16,236,468
2001	745,311	3,136,072	940,424	53,267	(1,763,834)	3,111,240
2002	772,874	2,415,200	904,033	35,323	(3,872,610)	254,820
2003	795,852	3,162,016	903,622	47,966	5,304,538	10,213,994
2004	801,072	3,223,394	902,797	17	15,959,909	20,887,189
2005	**816,200**	**3,872,189**	**902,797**	**15,322**	**10,895,937**	**16,502,445**

Schedule of Expenses By Type

For the Fiscal Years 2000-2005

Year Ending June 30	Benefit Payments	Refunds	Administrative Expenses	Total
2000	$3,695,138	$34,730	$46,476	$3,776,344
2001	3,769,698	19,199	49,485	3,838,382
2002	4,966,371	14,634	44,607	5,025,612
2003	5,799,943	964	38,613	5,839,520
2004	6,438,128	0	40,085	6,478,213
2005	**6,776,490**	**6,491**	**42,733**	**6,825,714**

Schedule of Benefit Expenses By Type*

For the Fiscal Years 2000-2005

Year Ending	Age & Service		Disability
June 30	Retirees	Survivors	Retirees
2000	$2,933,794	$ 752,320	$58,655
2001	3,663,355	1,284,567	72,208
2002	3,482,427	1,449,876	74,085
2003	4,841,242	1,532,412	75,636
2004	4,754,790	1,779,788	77,201
2005	**5,243,125**	**1,820,472**	**78,905**

* Expenses are based on June 30 benefit amounts annualized.

Schedule of Retired Members By Type of Benefit

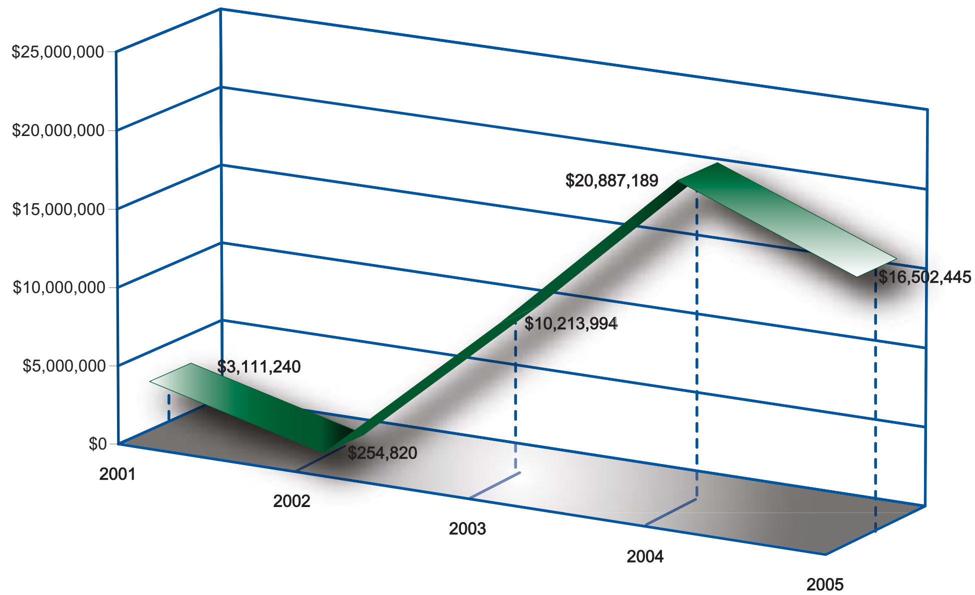
As of June 30, 2005

Type of Annuity	Number	Annuities	Liabilities
Age & Service Retirees			
Life	14	$ 1,098,649	$ 11,715,553
Option B-100 (Joint and 100% survivor)	54	4,144,476	50,913,456
Totals	68	5,243,125	62,629,009
Beneficiaries of Age & Service Retirees			
Life	36	1,820,472	16,327,857
Totals	36	1,820,472	16,327,857
Total Age & Service Retirees and Beneficiaries	104	7,063,597	78,956,866
Disability Retirees			
Option B-100	1	78,905	602,690
Totals	1	78,905	602,690
Beneficiaries of Disability Retirees	0	0	0
Total Disability Retirees and Beneficiaries	1	78,905	602,690
Death in Service Beneficiaries	0	0	0
Grand Total of All Retirees and Beneficiaries	**105**	**$ 7,142,502**	**$ 79,559,556**

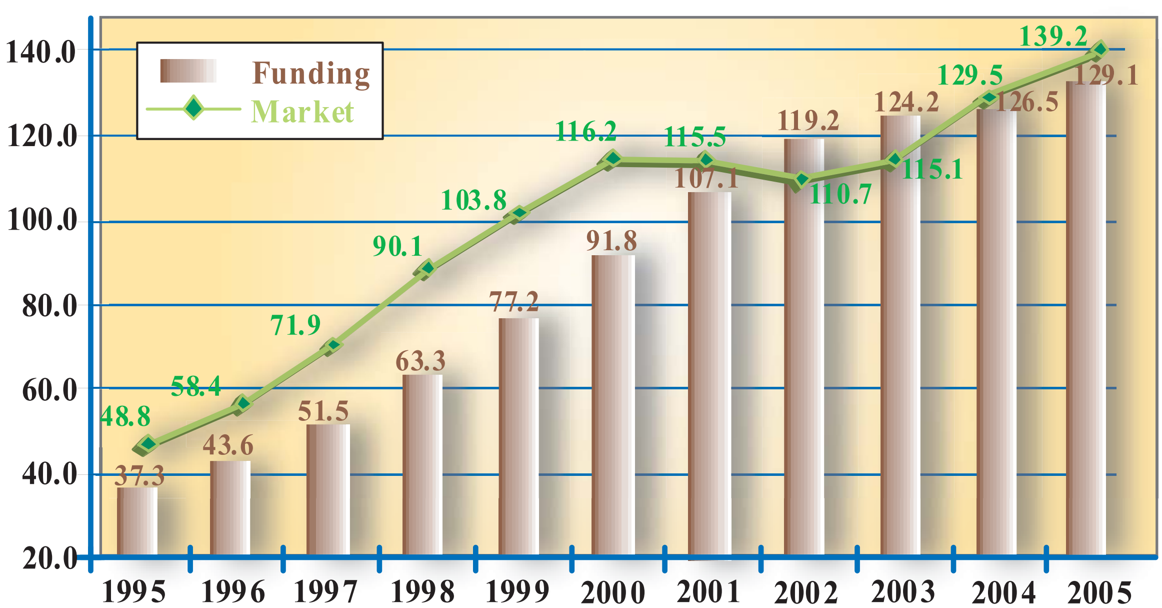
Statistical Graphs

As of June 30, 2005

Revenues
Fiscal Years 2001 - 2005



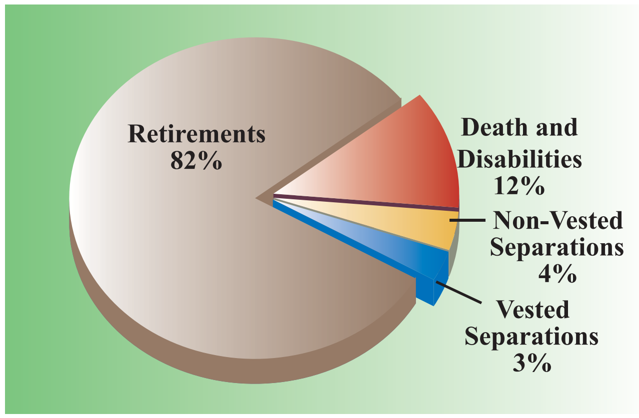
Comparison of Market Values
Fiscal Years 1995 - 2005



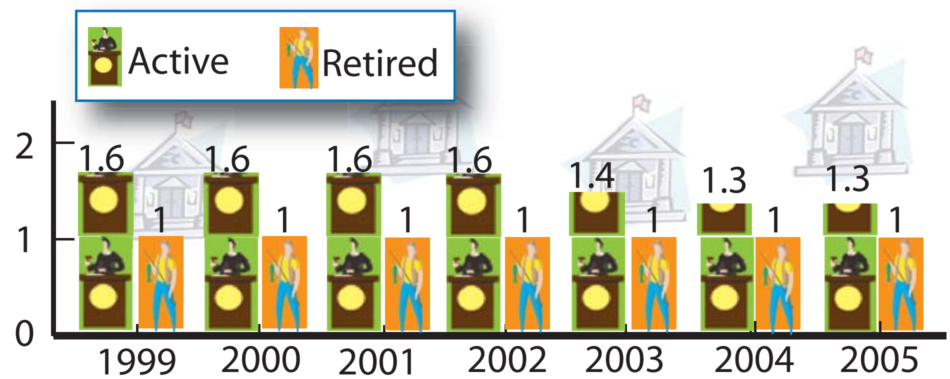
Statistical Graphs

As of June 30, 2005

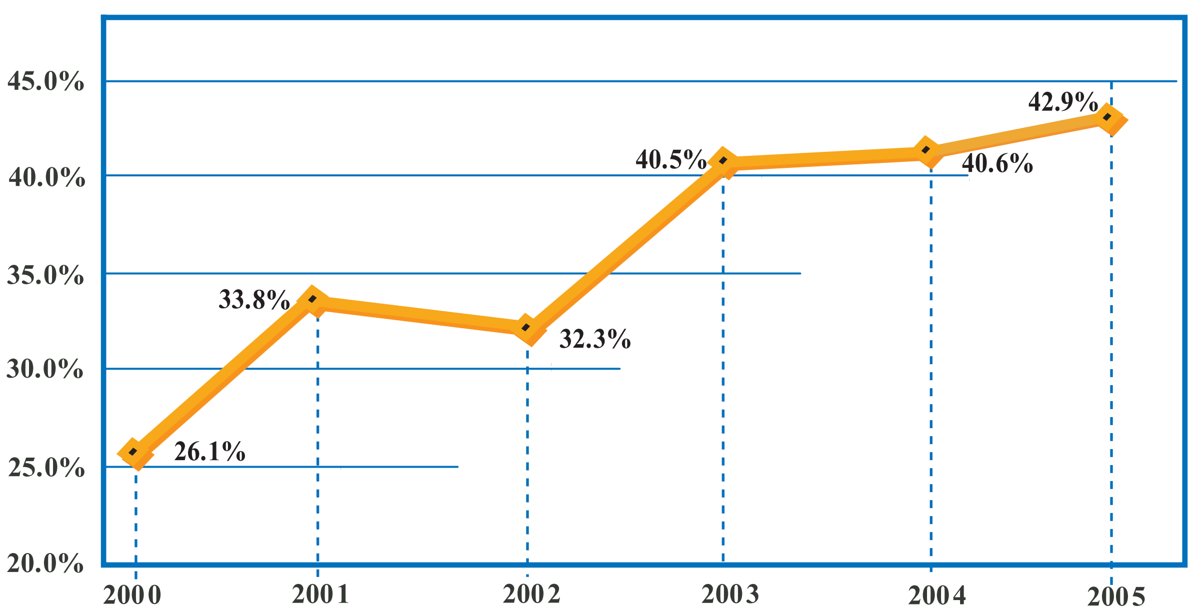
Expected Termination From Active Employment for Current Active Members



Ratio of Active Members To Retired Members For Years 1999 to 2005



Annual Benefits Paid Retirees As a Percent of Payroll From 2000 to 2005



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