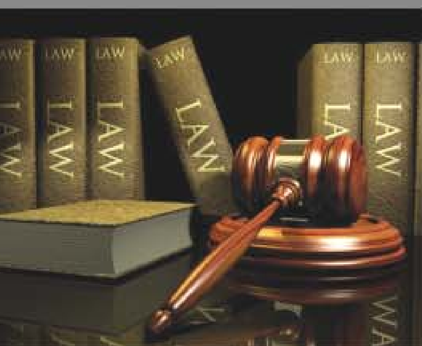
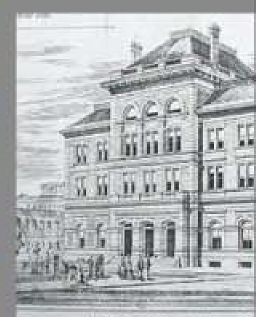
Arkansas Judicial Retirement System



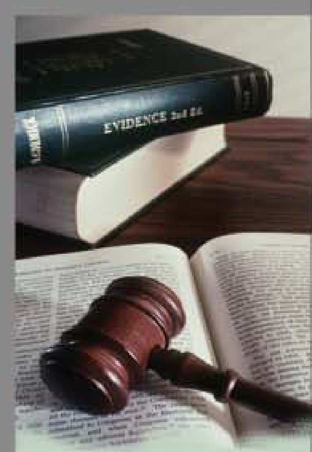










Comprehensive Annual Financial Report

FOR THE YEAR ENDING JUNE 30, 2006

ARKANSAS
JUDICIAL RETIREMENT SYSTEM

A Pension Trust Fund of the State of Arkansas

Comprehensive
Annual Financial Report

For the Year Ended
June 30, 2006

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

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

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INTRODUCTION

A Brief History of AJRS and Membership Information

Letter From The Board Chair/Executive Director

Board of Trustees

Organizational Chart and Administrative Staff

Professional Consultants and Investment Managers

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, 2005 through June 30, 2006, 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.

• • • •

Membership Information

As of June 30, 2006

ACTIVE MEMBERS	
Number	134
Average Age	56.7 years
Average Years	11.6
Average Annual Salary	$126,933

2006 RETIRED MEMBERS	
	Age and Service
Retired Members	3
Average Age	60.3 years
Average Monthly Benefit	$4,561
TOTAL RETIREES	
Retired Members	101
Average Monthly Benefit	$5,824

ARKANSAS JUDICIAL RETIREMENT SYSTEM

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

December 15, 2006

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) 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. 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 2006 revenue from employer and employee contributions totaled $4.8 million. This amount is approximately $137,400 greater than fiscal year 2005.

Court fees for fiscal year 2006 were $902,797, the same amount as fiscal year 2005.

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

Miscellaneous income was approximately $10 for fiscal year 2006, a decrease of $15,300 from fiscal year 2005.

Net investment income for fiscal year 2006 was $11.5 million (after investment expenses of $754,800 (see page 25)), an increase of $0.6 million from fiscal year 2005. Overall, the System's revenues increased by $0.7 million from fiscal year 2005.

Expenses

Benefit payments for fiscal year 2006 were $7.1 million, or $0.3 million greater than fiscal year 2005. Administrative expenses were $46,500, of which $12,600 was for professional fees and $25,300 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

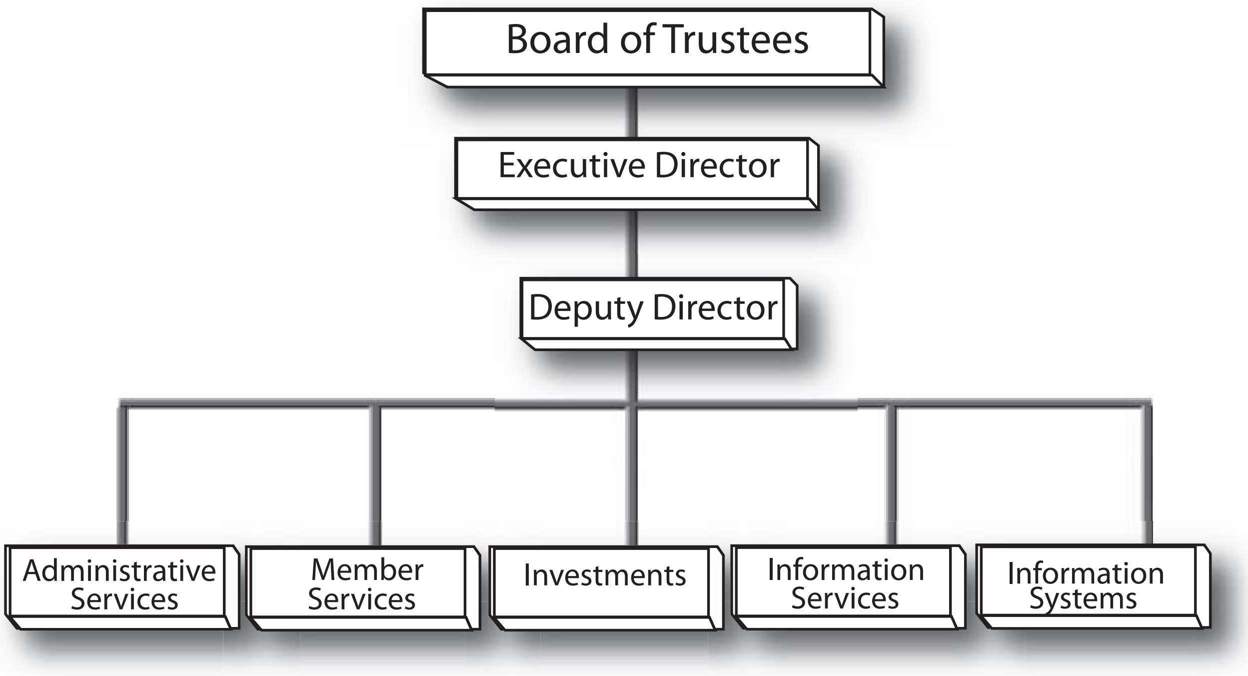
Gail H. Stone
Executive Director

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



Administration 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.
300 Galleria Parkway, Suite 950
Atlanta, GA 30339

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
ING Investment Management Co. 10 Statehouse Square - SH13 Hartford, CT 06103

Outline Of Investment Policies

Review Of Investment Processes (Continued)

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.

• • • •

FINANCIAL

Legislative Auditors' Report

Financial Statements
- *Statement of Plan Net Assets*
- *Statement of Changes in Plan Net Assets*

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- *Description of the System*
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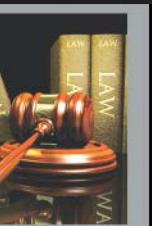






Arkansas

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, 2006, as listed in the table of contents. These financial statements are the responsibility of agency management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As indicated above, the financial statements of the Arkansas 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, 2006, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary pension trust fund of the Arkansas Judicial Retirement System as of June 30, 2006, and the changes in financial position thereof and the budgetary comparison for the fiduciary pension trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006 on our consideration of the Arkansas Judicial Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 2005-2006 fiscal year supplementary information on pages 23 and 24 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 22, 2006

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

Statement of Plan Net Assets

June 30, 2006 and 2005

ASSETS	2006	2005
Cash and Cash Equivalents	$ 2,285,118	$ 1,449,455
Receivables:		
Contributions	3,719	0
Investment Principal Receivable	328,130	468,112
Accrued Investment Income Receivable	60,190	618,236
Total Receivables	392,039	1,086,348
Investments At Fair Value:		
Government Securities:		
U.S. Government Securities	0	5,794,904
U.S. Government Agency Securities	0	21,930,718
Corporate Securities:		
Fixed Income Co-Mingled	66,671,435	0
Collateralized Obligations	0	8,796,851
Corporate Bonds	0	22,552,622
Common Stock	57,401,104	58,849,133
International Securities:		
Global Co-Mingled	23,102,413	21,579,273
Total Investments	147,174,952	139,503,501
Fixed Assets, Net*	0	0
TOTAL ASSETS	149,852,109	142,039,304
LIABILITIES		
Accrued Expenses and Other Liabilities	207,679	250,595
Investment Principal Payable	354,487	2,584,587
TOTAL LIABILITIES	562,166	2,835,182
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$149,289,943**	**$139,204,122**

(A schedule of Funding Progress is presented on page 23).

* Assets owned by the System are fully depreciated.

Statement of Changes In Plan Net Assets

June 30, 2006 and 2005

ADDITIONS	2006	2005
Contributions:		
Employer	$ 4,001,902	$ 3,872,189
Employee	823,899	816,200
Court Fees	902,797	902,797
Total Contributions	5,728,598	5,591,186
Investment Income:		
Interest	711,825	2,712,959
Dividends	789,070	760,026
Investment Gain	10,721,678	8,188,294
Total Investment Income	12,222,573	11,661,279
Less: Investment Expense	754,843	765,342
Net Investment Income	11,467,730	10,895,937
Other Additions:		
Miscellaneous Additions	10	15,322
TOTAL ADDITIONS	17,196,338	16,502,445
DEDUCTIONS		
Benefits	7,064,031	6,776,490
Refunds of Contributions	0	6,491
Administrative Expenses	46,486	42,733
TOTAL DEDUCTIONS	7,110,517	6,825,714
NET INCREASE	10,085,821	9,676,731
NET ASSETS		
Beginning of Year	139,204,122	129,527,391
End of Year	**$149,289,943**	**$139,204,122**

Notes To

The Financial Statements

For The Years Ending June 30, 2006 and 2005

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, 2006, 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, 2006 and 2005, Membership was as follows:

	2006	2005
Retirees and Beneficiaries Receiving Benefits	101	105
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 Policies

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 $2,285,118 at June 30, 2006. This total consisted of cash deposits with financial institutions of $242,580, STIF accounts in the amount of $2,016,073, and $26,465 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, 2006 none of the System’s bank balance of $242,580 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, 2006, the System had the following investments:

Investment Type	Fair Value
Domestic Equity Securities	$ 57,401,105
Global Commingled	23,102,413
Domestic Fixed Income Commingled	66,671,435
Total	$147,174,953

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 $147,174,953 investments at June 30, 2006, there were no investments exposed to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Also, investments can be highly sensitive to changes in interest rates due to their terms or characteristics. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates. As of June 30, 2006, the System had $66,671,435 invested in a commingled fixed income fund with an average maturity of 7.863 years.

Pooled Funds - AJRS has approximately $23 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.

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 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, 2006 and 2005 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.

	2006	2005
Members Deposit Account	$ 11,078,278	$ 10,254,379
Members Deposit Account Interest Reserve	698	698
Employer Accumulation Account	60,214,264	54,746,482
Retirement Reserve Account	77,996,703	74,202,563
Total	$149,289,943	$139,204,122

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 $11,459,348 as of June 30, 2006.

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	$ 79,739,208	$ 0	$ 79,739,208
Age and service allowances based on total service likely to be rendered by present active members	101,537,439	30,159,252	71,378,187
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	1,530,433	1,261,014	269,419
Disability benefits likely to be paid to present active members	4,076,107	2,440,296	1,635,811
Death in service benefits likely to be paid on behalf of present active members	5,740,468	2,253,479	3,486,989
Total	$192,623,655	$36,114,041	$156,509,614
Applicable Assets (Funding Value)	145,050,266	0	145,050,266
Liabilities to be covered by future contributions	$ 47,573,389	$36,114,041	$ 11,459,348

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, 2006. 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 actuaryand 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 2006 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 gain was $4.5 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 1994-2006

Fiscal 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
2006	**4,904,699**	**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%
2006	**145,050**	**156,510**	**11,459**	**92.7%**	**17,009**	**67%**

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, 2006
Actuarial Cost Method	Entry age
Amortization Method:	
Tier 1	Level percent of payroll
Tier II	Level percent of payroll
Remaining Amortization Period	30 year open
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, 2006 and 2005

	2006	2005
Custodian bank fees	$ 15,000	$ 15,000
Investment Consulting Fee	37,692	63,898
Investment Manager Fees	702,151	686,444*
Total	**$754,843**	**$765,342**

*Includes an unrelieved accrual of $396.

Schedule of Payments for Professional Consultants
For the Years Ended June 30, 2006 and 2005

	2006	2005
Gabriel, Roeder, Smith & Company	$12,550	$ 11,300
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	**$12,550**	**$ 11,300**

For fees paid to investment managers, please see "Schedule of Investment Fees" shown on page 39 in the Investment Section of this report.

Schedule of Administrative Expense
For the Years Ended June 30, 2006 and 2005

	2006	2005
Communications:		
Printing and advertising	$ 4,865	$ 4,918
Travel	1,265	1,983
Purchases:		
Office Supplies	150	0
Services and Charges:		
Professional Fees and Services	12,550	11,300
Bank & Federal Service Charges	2,400	2,817
Total Service and Charges	14,950	14,117
Transfer to APERS for Administration	25,256	21,715
Total Administrative Expenses	**$46,486**	**$42,733**

INVESTMENTS

Report on Investments

Outline of Investment Policies

Actual vs. Target Asset Allocation

Manager Distribution

Performance Comparisons

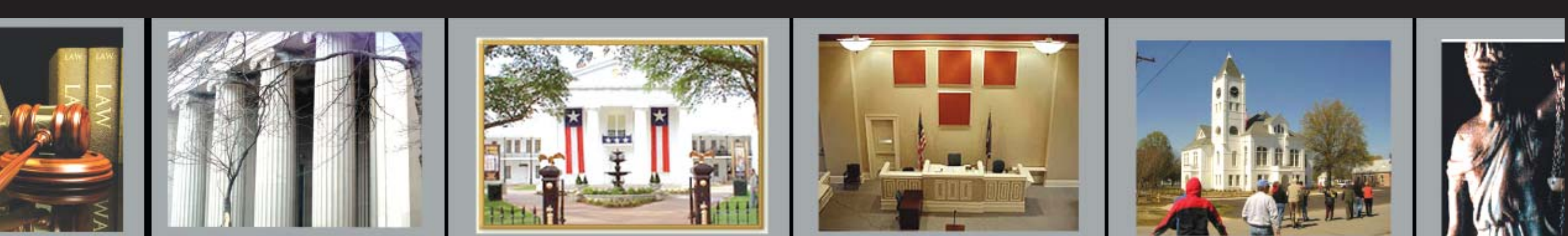
Portfolio Characteristics

List of Ten Largest Assets Held
- *Fixed Income Holdings*
- *Equity Holdings*
- *International Equity Holdings*

Schedule of Brokerage Commissions

Schedule of Investment Fees

Comparative Schedule of Investments



CALLAN ASSOCIATES INC

Jeanne Valcik, CFA
Senior Vice-President

CAI

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

August 30, 2006

AJRS' investment program objective is to provide plan participants with retirement benefits. This is accomplished by the implementation of a carefully planned and executed long-term investment program. The Board of Trustees (Board) has exclusive control of all retirement system investments and is responsible for establishing investment objectives, strategies, and policies.

The Board is charged with the responsibility of investing the systems' assets to provide for the benefits of the members of the systems. To achieve that goal the Board follows a policy of preserving capital, while seeking means of enhancing revenues and protecting against undue losses in any particular investment area. The Board diversifies the investment of the assets among classes of securities to reduce risk while maximizing the long-range return.

Asset Allocation

Based on its analysis of capital and money market return patterns, both historical and projected, the Board considers the following asset allocation targets to be consistent with the return requirements and risk tolerance of the fund:

Domestic Equity	41%
Non-Domestic Equity	15%
Domestic Fixed Income	44%

The fund benchmark is the return that would have been achieved if the fund had been invested: 41% in the S&P 500 Stock Index, 15% in the Morgan Stanley Capital International Europe, Australia, Far East Index, and 44% in the Lehman Brothers Aggregate Bond Index.

Total Fund Goals

The System's primary funding goal is to achieve and maintain a funded status that provides for the security of retirement income to participants in the Plan.

The Board's investment objective, as per the Investment Policy Statement, 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

Total Fund Returns

For the fiscal year 2006 AJRS produced a return of 8.87%. This exceeded the fund benchmark, as described above, by 1.93%.

The five-year annualized return of 6.70% exceeded the fund benchmark by 2.10%. In the Callan Public Fund Universe, AJRS' total fund performance ranks at the 44th percentile for five-years and 44th percentile since inception (16 years). This level of performance exceeded 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, however, failed to exceed the actuarially assumed interest rate assumption of 7%.

The performance calculations presented above were prepared by the Systems' custodial bank using a time-weighted rate of return methodology based upon the market value of assets.

Very truly yours,

Jeanne Valcik

Jeanne Valcik, CFA

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.

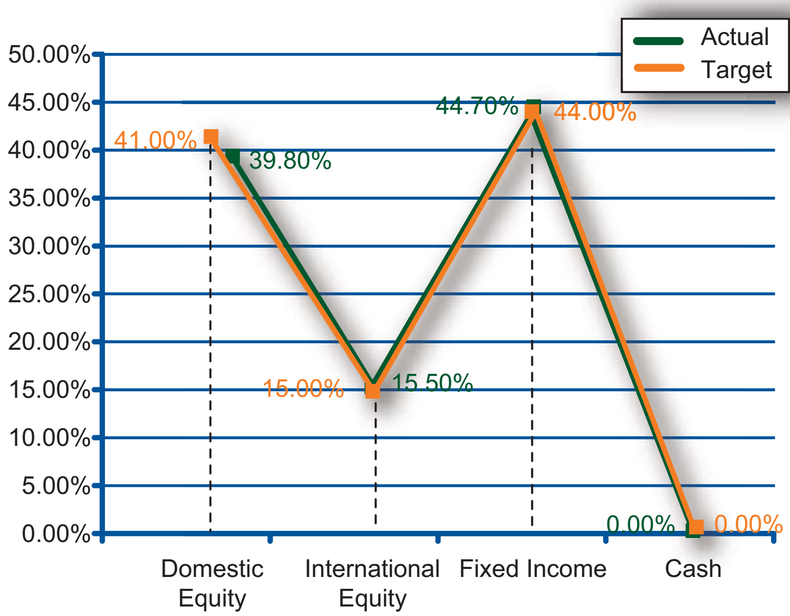
Currently the Board has delegated its investment function to investment managers and has delegated investment discretion to the Managers, by separate contract. The duties and responsibilities of each of the investment managers retained by the board shall include the following:

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

Actual Asset and Target Asset Allocation

For The Year Ending June 30, 2006



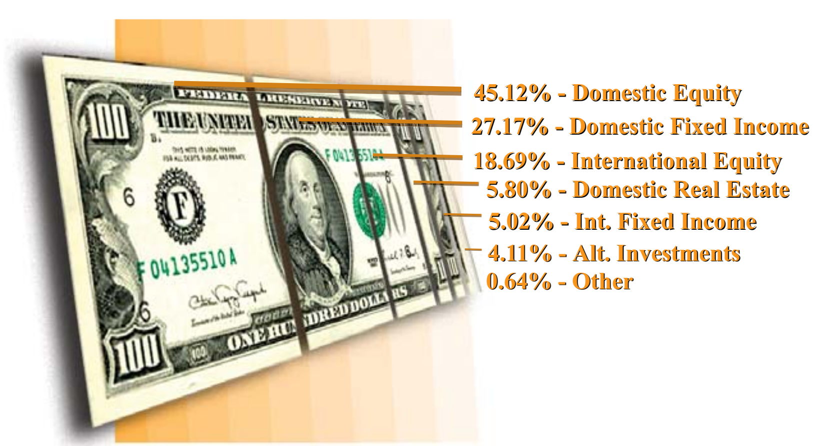
The graph to the left shows the Fund's asset allocation as of June 30, 2006. For each pair of points, the green points represent each asset class in the Actual Funds asset allocation (see table below) as a percentage of all assets in the Fund.

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 of the asset allocations, showing the difference in percentage and actual dollar amounts between the Actual and Target allocations.

Asset Class	$ 000s Actual	Percent Actual	Percent Target	Percent Difference	$ 000s Difference
Domestic Equity	$ 59,448	39.8%	41%	(1.2)%	$(1,734)
International Equity	23,102	15.5	15	0.5	719
Fixed Income	66,671	44.7	44	0.7	1,012
Cash	3	0.0	0	0.0	3
Total	$149,224	100.0%	100%		

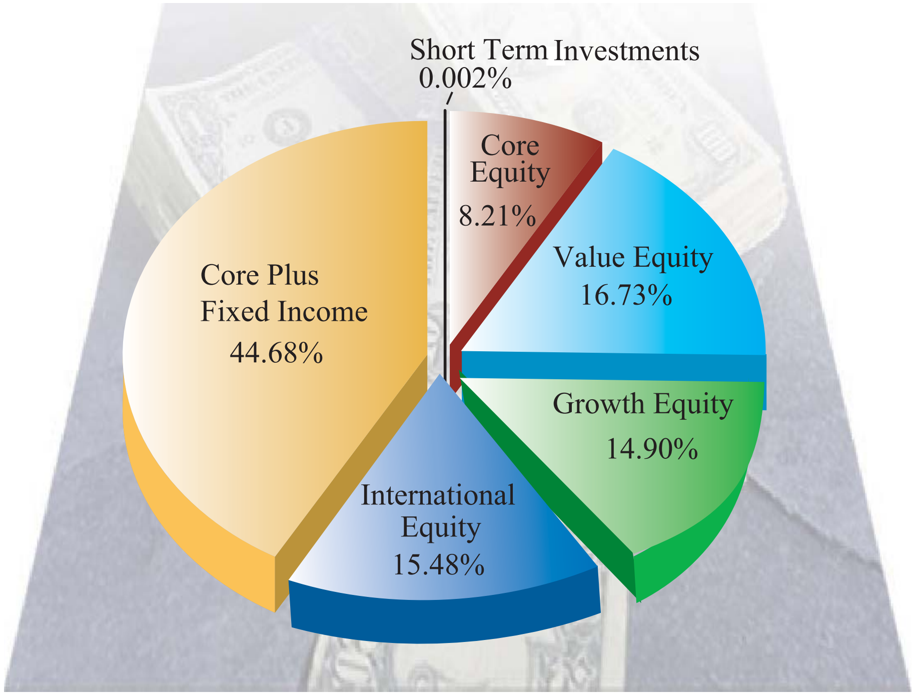
Public Plan Sponsor Database



The illustration to the left 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, 2006



INVESTMENT PORTFOLIO DISTRIBUTION
JUNE 30, 2006
(MARKET VALUE)

Core Equity	
Batterymarch Financial Management	$ 12,247,019
Value Equity	
Boston Partners	24,967,500
Growth Equity	
Loomis Sayles & Co.	22,233,196
International Equity	
Capital Guardian	23,102,413
Core Plus Fixed Income	
ING Investment Management	66,671,435
Short Term Investments	3,296
Total Investments	$149,224,859

Performance Comparison

For Fiscal Years Ended June 30

Fiscal Years Ended June 30	2006	2005	2004	2003	2002
Total Fund:					
Arkansas Judicial Retirement System	8.87%	8.98%	14.19%	5.03%	(2.92)%
Callan Total Public Fund Median	10.47	9.22	14.96	3.74	(5.15)
Inflation (Consumer Price Index)	4.47	2.59	3.17	2.10	0.74
Equities:					
Arkansas Judicial Retirement System	10.37%	10.86	24.36	(0.75)	(11.62)
Callan Total Equity Database Median	10.22	8.33	23.54	(0.15)	(15.84)
Standard & Poor's 500 Index	8.63	6.32	19.11	0.25	(17.99)
Fixed Income:					
Arkansas Judicial Retirement System	(0.82)	6.68	0.64	9.59	7.18
Callan Total Fixed Income Database Median	(0.30)	6.82	0.71	10.58	7.86
Lehman Bros. Aggregate Index	(0.81)	6.80	0.32	10.40	8.63
Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds.)					

Returns Reported Gross of Fees

Performance Comparison

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

		Annualized	
Fiscal Years Ended June 30	2006	3-Year	5-Year
Total Fund:			
Arkansas Judicial Retirement System	8.87	10.69	6.70
Callan Total Public Fund Median	10.47	11.77	6.52
Inflation (Consumer Price Index)	4.47	3.41	2.61
Equities:			
Arkansas Judicial Retirement System	10.37	15.02	5.94
Callan Total Equity Database Median	10.22	13.07	4.04
Standard & Poor's 500 Index	8.63	11.22	2.49
Fixed Income:			
Arkansas Judicial Retirement System	(0.82)	2.19	4.62
Callan Total Fixed Income Database Median	(0.30)	2.52	5.28
Lehman Bros. Aggregate Index	(0.81)	2.05	4.97
Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds.)			

Returns Reported Gross of Fees

Portfolio Characteristics

Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
Selected Bond Characteristics:		
Yield to Maturity (Market)	5.90%	4.50%
Current Yield	5.61	5.06
Average Coupon Rate	5.49	5.15
Average Maturity	8.23 Yrs.	6.10 Yrs.
Quality Breakdown		
AAA (Includes Govts. & Agencies)	69.69%	57.6 %
AA	3.45	2.3
A	3.58	7.6
BAA	18.19	31.7
*Cash	5.09	0.8
Selected Stock Characteristics:		
Average P/E Ratio	17.60x	19.59x
Estimated Earnings Growth Rate (Next 5 Years)	13.30%	15.43%
Current Yield	2.10%	1.09%

* Includes Short Term Investment Fund

Source: Callan Associates

List of Ten Largest Assets Held

Fiscal Year Ended June 30, 2006

Fixed Income Holdings (By Market Value)

	Description	Coupon	Maturity	Market Value
1)	FNMA TBA Aug 30 Yr	5.000%	08/01/2032	$ 4,290,558
2)	FNMA TBA Aug 30 Yr	5.500%	09/01/2036	2,539,588
3)	FNMA TBA Jul 30 Yr	6.000%	07/01/2033	1,976,793
4)	U.S. Treasury Note	5.125%	06/30/2011	1,191,174
5)	U.S. Treasury Inflation Index Note	2.375%	04/15/2011	1,034,633
6)	FHLMC TBA Jul 30 Yr	5.500%	08/15/2035	998,794
7)	Banc of America Commercial Mortgage 05-2 A3	4.611%	07/10/2043	935,254
8)	FNMA TBA Aug 15 Yr	6.000%	08/15/2018	768,059
9)	U.S. Treasury Strip	0.000%	05/15/2016	723,368
10)	U.S. Treasury Note	5.125%	05/15/2016	698,612
	Total			**$15,156,833**

* Market Value represents AJRS percentage of investment in fixed income commingled fund.

Equity Holdings (By Market Value)

	Shares	Description	Market Value
1)	18,200	Exxon Mobil Corp	$1,116,570
2.	22,577	Citigroup Inc.	1,089,114
3)	6,800	Goldman Sachs Group Inc.	1,022,924
4)	22,650	JP Morgan Chase & Co.	951,300
5)	1,975	Google Inc. Cl A	828,177
6)	23,550	Hewlett Packard Co.	746,064
7)	31,780	Pfizer Inc.	745,877
8)	18,950	Starbucks Corp.	715,552
9)	10,734	Conocophillips	703,399
10)	12,300	Procter & Gamble Co.	683,880
		Total	**$8,602,857**

International Equity Holdings (By Market Value)

	Description	Market Value*
1)	Sumitomo Mitsui Financial Group	$ 596,704
2)	Vodafone	585,710
3)	Royal Bank of Scotland Group	502,616
4)	Sanofi-Aventis	491,025
5)	Novartis	474,646
6)	Royal Dutch Shell	469,670
7)	AstraZeneca	398,832
8)	Softbank	325,781
9)	Mizuho Financial Group	320,568
10)	BNP Paribas	302,741
	Total	**$4,468,293**

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

Brokerage Commissions

As of June 30, 2006

Broker	Number of Shares Traded	Total Commission	Commission Per Share
Goldman Sachs & Co.	350,047	$ 12,848	0.04
Merrill Lynch Pierce Fenner & Smith Inc.	181,175	8,725	0.05
B-Trade Services	287,279	6,968	0.02
UBS	129,525	6,103	0.05
Bear Stearns & Co., Inc.	165,281	6,061	0.04
CITIGROUP Global Markets Inc.	130,580	5,603	0.04
Liquidnet Inc.	224,733	5,302	0.02
Lehman Brothers Inc.	133,129	5,021	0.04
JP Morgan Securities	97,785	4,762	0.05
Investment Technologies Group	289,587	4,415	0.02
CS First Boston Global	136,500	3,991	0.03
Banc of America Securities, LLC	123,725	3,970	0.03
Weeden & Co.	181,520	3,319	0.02
SG Americas Securities	63,350	3,168	0.05
Sanford C. Berstein & Co.	75,750	2,691	0.04
Deutsche Bank Securities	56,550	2,621	0.05
Thomas Weisel Partners	78,900	2,444	0.03
Prudential	64,585	2,314	0.04
Keefe Bruyette & Woods Inc.	88,300	2,060	0.02
Pershing, LLC	95,332	1,938	0.02
Others (includes 73 brokerage firms)	1,194,271	31,674	0.03
Total	**4,147,904**	**$125,998**	0.03

Schedule of Investment Fees

As Of June 30, 2006

Equities	Market Value	Fee	Basis Points
Loomis, Sayles	$22,233,196	$ 95,012	38
Batterymarch Financial Management	12,247,019	109,279	85
Boston Partners	24,967,500	148,448	58
Total Equity	$59,447,715	$352,739	
Fixed Income	**Market Value**	**Fee**	**Basis Points**
ING Investment Management	$66,671,435	$132,443	27
Loomis, Sayles*	0	43,657	38
Total Fixed Income	$66,671,435	$176,100	
International Equity	**Market Value**	**Fee**	**Basis Points**
Capital Guardian Trust	$23,102,413	$173,434	71
Other Services		**Fee**	
Bank of New York (Custodian)		$ 15,000	
Callan Associates (Consultant)		37,692	
Total Other Services		$ 52,692	
Total Investment Service Fees		$754,965	

* Manager terminated September 2005.

Comparative Schedule Of Investments

For The Years Ended June 30, 2006 and 2005

	2006	2005
U.S. Government Securities		
U.S. Government Securities	$0	$5,794,904
U.S. Government Agency Securities	0	21,930,718
Corporate Securities:		
Fixed Income Co-Mingled	66,671,435	0
Collateralized Obligations	0	8,796,851
Corporate Bonds	0	22,552,622
Common Stock	57,401,104	58,849,133
International Securities:		
Global Co-Mingled	23,102,413	21,579,273
Short-Term Investments	2,016,073	1,369,605
Total Investments	$149,191,025	$140,873,106

ACTUARIAL

Actuary's Certification Letter

Summary of Assumptions Used in Actuarial Valuations

Summary of Actuarial Methods and Assumptions

Schedule of Active Member Valuation Data

Short Condition Test

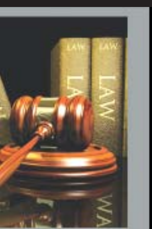
Retirees and Beneficiaries Tabulated By Attained Age

Active Members By Attained Age and Years of Service

Analysis of Financial Experience

Analysis of Financial Experience - Gains and Losses by Risk Area

Summary of Plan Provisions - Tier I and Tier II







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October 27, 2006

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

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, 2006 valuations were based upon assumptions that were recommended in connection with a study of experience through June 30, 2001.

On the basis of the 2006 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.

NLJ:dlh:lr

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 47. 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 46.

The probabilities of retirement for members eligible to retire are shown on page 48.

The probabilities of withdrawal from service, death-in-service, disability, or other reasons are shown for sample ages on page 47.

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, 2006 Valuation

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry age
Amortization Method:	
Tier 1	Level percent of payroll
Tier II	Level percent of payroll
Remaining Amortization Period	30 year open
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 $1.00 Monthly for Life Increasing 4% Annually		Future Life Expectancy (Years)		Sample Ages	$100 Benefit Increasing 4.0% Annually	Portion of Age 65 Lives Still Alive	
	Men	Women	Men	Women	Men	Women			Men	Women
50	$147.78	$154.93	$237.09	$257.98	30.69	34.89	65	$100.00	100%	100%
55	138.58	147.42	212.68	235.17	26.15	30.17	70	121.67	91	95
60	127.35	137.85	186.69	210.13	21.83	25.59	75	148.02	79	87
65	114.51	126.50	160.21	183.92	17.84	21.28	80	180.09	62	75
70	100.68	113.58	134.44	157.28	14.29	17.30	85	219.11	42	58
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				

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		Sample Ages	$100 Benefit Increasing 3.0% Annually
	Men	Women		
50	$208.24	$224.03	65	$100.00
55	189.32	206.95	70	115.93
60	168.45	187.47	75	134.39
65	146.52	166.38	80	155.80
70	124.57	144.28	85	180.61
75	102.56	120.61		
80	81.31	96.94		

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

Summary of

Actuarial Methods and Assumptions

June 30, 2006 Valuation

Separation from Active Employment Before Age and Service Retirement

Sample Ages	Years of Service	Male Death	Male Disability	Female Death	Female Disability	Withdrawal For Other Reasons (Male and Female)
		Percent of Active Members Separating Within The Next Year				
	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, 2006 Valuation

Probabilities of Retirement for Members Eligible to Retire

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year	Retirement Ages	Percent of Eligible Active Members Electing Early Retirement Within Next Year
50-51	6%	62-64	2%
52-53	8		
54	10		
55-56	12		
57-59	14		
60-61	18		
62-79	30		
80 & Over	100		

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	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
2006	**134**	**17.0**	**126,933**	**2.2**

Short Condition

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			
Val'n Date: June 30	(1) Active Member Contr.	(2) Retirees and Benef.	(3) Active Members (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
2006	11,078	79,739	65,692	145,050	100	100	83	93

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

Retirees and Beneficiaries

Tabulated By Attained Age

As Of June 30, 2006

	Retirees		Survivors/Beneficiaries		Total	
Attained Age	No.	Annual Allowances	No.	Annual Benefits	No.	Annual Allowances
48			1	$ 46,368	1	$ 46,368
55	1	$ 75,672			1	75,672
58	1	75,828			1	75,828
59	1	83,616			1	83,616
60	2	151,332			2	151,332
61	3	200,520	2	117,864	5	318,384
62			1	52,356	1	52,356
63	3	269,796	2	101,076	5	370,872
64			1	54,192	1	54,192
65	2	151,332	1	54,024	3	205,356
66	1	80,880			1	80,880
67	1	12,864			1	12,864
68	4	356,040			4	356,040
69	6	451,008			6	451,008
70	3	220,872	1	51,000	4	271,872
71	6	495,720			6	495,720
72	2	158,736	1	50,700	3	209,436
73	1	87,108			1	87,108
74	4	307,296			4	307,296
75	2	149,100	1	50,700	3	199,800
76	2	146,724			2	146,724
77	2	156,900	2	101,388	4	258,288
78	1	75,672	3	152,088	4	227,760
79			2	101,388	2	101,388
80	4	369,832	1	50,700	5	420,532
81	4	292,577			4	292,577
82	3	265,548			3	265,548
83	1	79,392	2	101,388	3	180,780
84	1	75,672	1	50,700	2	126,372
85	2	151,332			2	151,332
86	2	153,816	1	50,700	3	204,516
88	1	75,672	1	45,696	2	121,368
89	1	75,672	1	50,700	2	126,372
90	1	79,392			1	79,392
91			1	50,700	1	50,700
92	1	75,672			1	75,672
93			1	58,368	1	58,368
94			2	109,056	2	109,056
95			1	50,700	1	50,700
97			1	54,024	1	54,024
100			1	50,700	1	50,700
Totals	**69**	**$5,401,593**	**32**	**$1,656,576**	**101**	**$7,058,169**

Active Members

By Attained Age and Years of Service

As Of June 30, 2006

Tier I

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	No.	Total Valuation Payroll
	Years of Service to Valuation Date							
40-44		2					2	$ 252,222
50-54		3	3	1			7	886,919
55-59		6	5	9	1	1	22	2,786,865
60		1	2				3	378,333
61		1	2	1			4	504,444
62			2	1			3	378,333
63		1		1			2	256,364
64			1				1	126,111
65		2	1	3			6	773,231
66				2			2	256,364
68				1	1		2	252,222
72				1			1	126,111
73				1			1	126,111
Totals		16	16	21	2	1	56	$ 7,103,630

Tier II

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	No.	Total Valuation Payroll
	Years of Service to Valuation Date							
35-39	2						2	$ 252,222
40-44	2	1	1				4	508,586
45-49	7	2					9	1,134,999
50-54	7	6	3	3			19	2,400,251
55-59	7	6	2	7	4		26	3,283,028
60	2						2	252,222
61					1		1	126,111
62	3				1	1	5	642,978
63					1		1	126,111
64				1	1		2	256,364
65					1		1	126,111
66	1						1	145,184
67				1		1	2	256,364
68						2	2	268,784
69					1		1	126,111
Totals	31	15	6	12	10	4	78	$9,905,426

Averages

Group	No.	Age	Service	Annual Pay
Tier I	56	59.2 years	13.5 years	$126,851
Tier II	78	54.9	10.3	$126,993

Analysis of Financial Experience

For The Year Ended June 30, 2006

Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often 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	$15,518,638
(2) Normal cost from last valuation	4,280,848
(3) Employer contributions	4,904,708
(4) Interest accrual: (1)*.070+((2)-(3))* .035	1,064,470
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	15,959,248
(6) Change in actuarial assumptions@	0
7) Expected UAAL after changes: (5) + (6)	15,959,248
(8) Actual UAAL at end of year	11,459,348
(9) Gain (loss): (7) - (8)	$ 4,499,900
(10) Gain (loss) as percent of actuarial accrued liabilities at start of year: $150,580,305	3.0%

* Unfunded actuarial accrued liability.

@ Including transfers and data changes.

Analysis of Financial Experience

Gains and Losses By Risk Area

Year Ended June 30, 2006

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.	$2.1	1.4 %
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	1.9	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.	0.9	0.6 %
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.	(0.5)	(0.3)%
Retiree Mortality If there are fewer deaths than assumed, there is a loss. If more, a gain.	0.4	0.3 %
Other Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources.	(0.7)	(0.5)%
Experience Gain/(Loss)	**$4.5**	**3.0 %**

July 1, 2006

Summary of Plan Provisions

TIER I	TIER II

Description

Tier I: Elected or appointed prior to the effective date of Act 399 of 1999 and who do not elect to participate in Tier II.

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

Tier I: 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.

Tier II: 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

Tier I: 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.

Tier II: 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

Tier I: A member's salary at the end of the last judicial office.

Tier II: A member's salary at the end of the last judicial office.

Age and Service Annuity

Tier I: Sixty percent of the judge's final salary, for life.

Tier II: 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

Tier I: 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.

Tier II: 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

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.

July 1, 2006

Summary of Plan Provisions

TIER I	TIER II

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

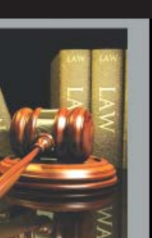
Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Benefit Expenses by Type

Schedule of Retired Members By Type of Benefit

Statistical Graphs







Schedule of Revenues By Source

For Fiscal Years 2001-2006

Year Ending June 30	Employee Contributions	Employer & Other Entity Contributions	Court Fees	Misc.	Investment Income	Total
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
2006	**823,899**	**4,001,902**	**902,797**	**10**	**11,467,730**	**17,196,338**

Schedule of Expenses By Type

For Fiscal Years 2001-2006

Year Ending June 30	Benefit Payments	Refunds	Administrative Expenses	Total
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
2006	**7,064,031**	**0**	**46,486**	**7,110,517**

Schedule of Benefit Expenses By Type*

For Fiscal Years 2001-2006

Year Ended June 30	Age & Service		Disability Retirees
	Retirees	Survivors	
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
2006	**5,320,958**	**1,656,576**	**80,635**

* Expenses are based on June 30 benefit amounts annualized.

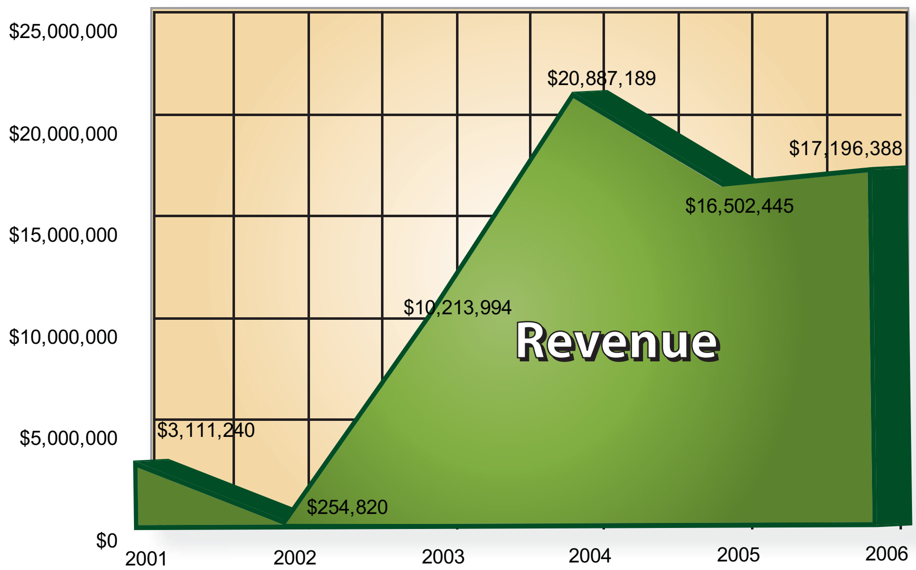
Schedule of Retired Members By Type of Benefit

As of June 30, 2006

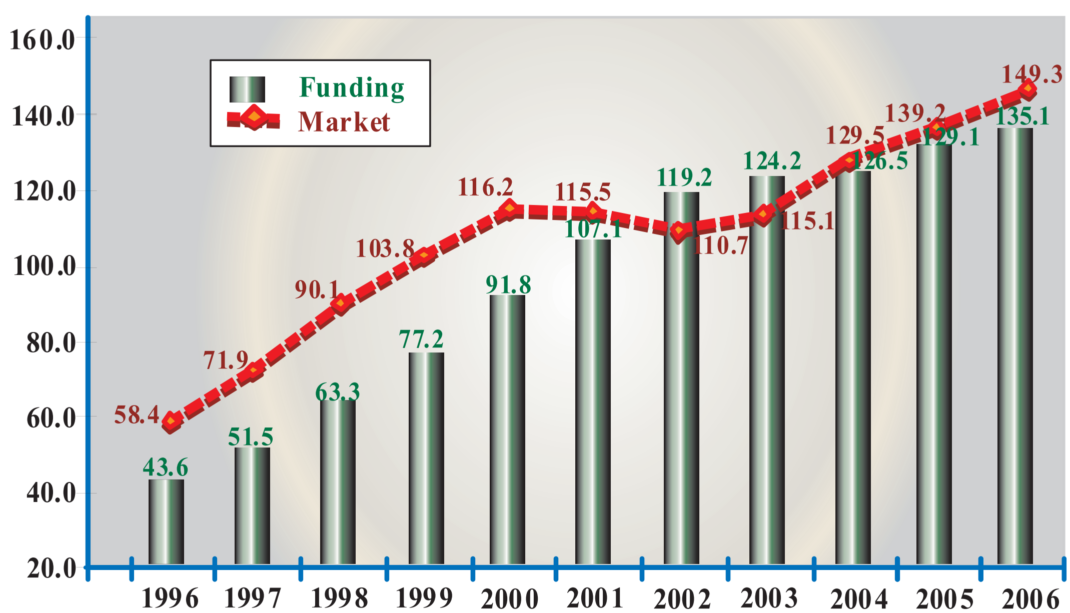
Type of Annuity	Number	Annuities	Liabilities
Age & Service Retirees			
Life	11	$ 832,791	$ 9,396,363
Option B-100 (Joint and 100% survivor)	57	4,488,167	54,548,651
Totals	68	5,320,958	63,945,014
Beneficiaries of Age & Service Retirees			
Life	32	1,656,576	15,208,455
Totals	32	1,656,576	15,208,455
Total Age & Service Retirees and Beneficiaries	100	6,977,534	79,153,469
Disability Retirees			
Option B-100	1	80,635	585,739
Totals	1	80,635	585,739
Beneficiaries of Disability Retirees	0	0	0
Total Disability Retirees and Beneficiaries	1	80,635	585,739
Death in Service Beneficiaries	0	0	0
Grand Total of All Retirees and Beneficiaries	**101**	**$7,058,169**	**$79,739,208**

Statistical Graphs

Revenues for Fiscal Years 2001-2006

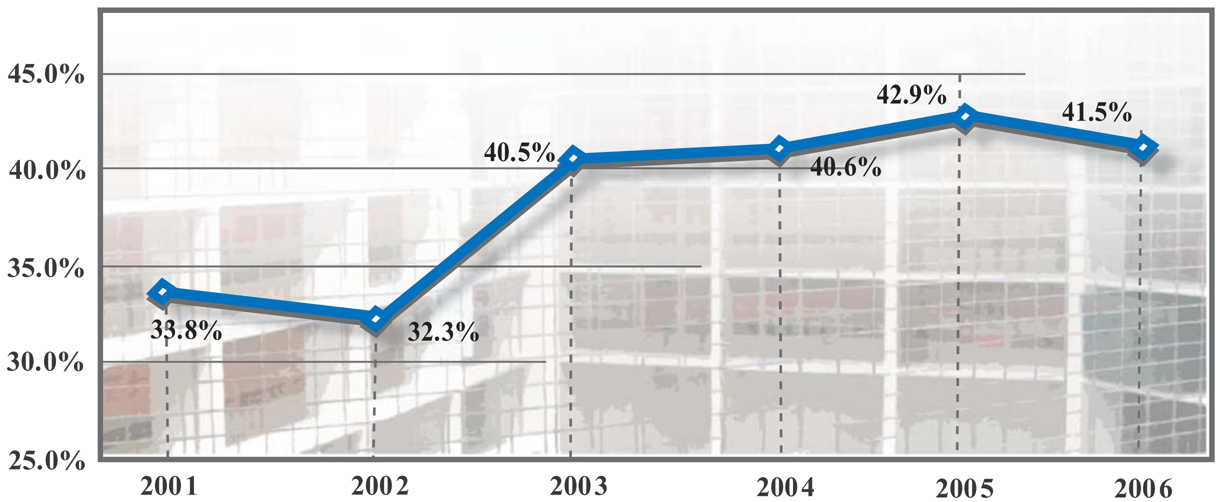


Comparison of Market Values
Fiscal Years 1996-2006

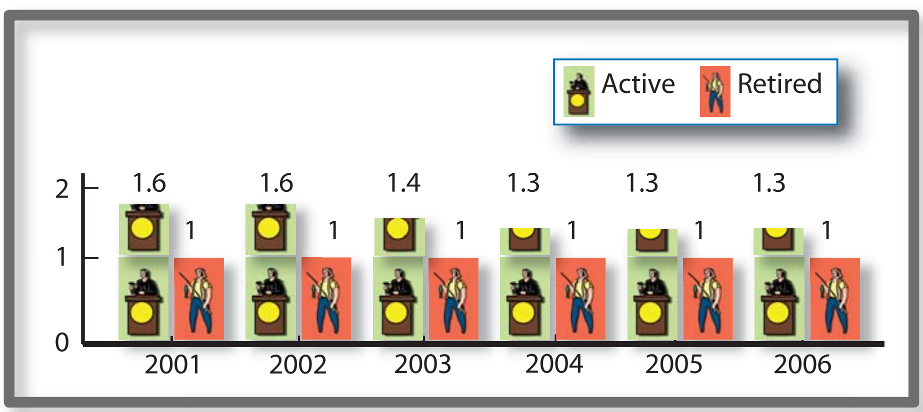


Statistical Graphs

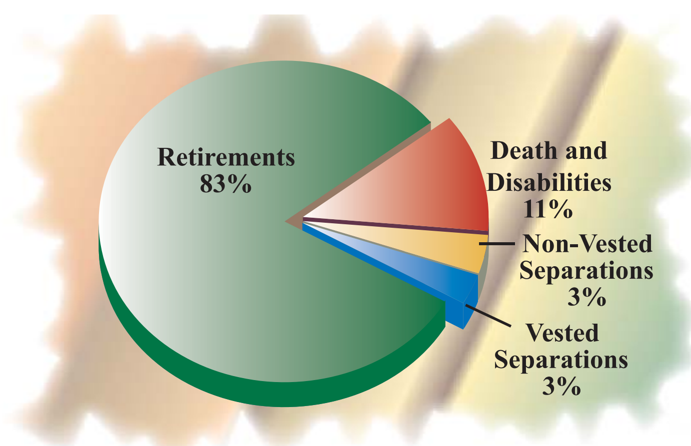
Annual Benefits As a Percent of Payroll
2001-2006



Ratio of Active Members to
Retired Members



Expected Termination from Active Employment for Current Active Members



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