
ARKANSAS

JUDICIAL RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDING JUNE 30, 2007

ARKANSAS

JUDICIAL RETIREMENT SYSTEM

A Pension Trust Fund of the State of Arkansas

Comprehensive
Annual Financial Report

For the Year Ended
June 30, 2007

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

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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, 2006 through June 30, 2007, 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.

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Membership Information

As of June 30, 2007

ACTIVE MEMBERS	
Number	134
Average Age	56.9 years
Average Years	11.8 years
Average Annual Salary	\$129,358

2007 RETIRED MEMBERS	
	Age and Service
Retired Members	8
Average Age	62 years
Average Monthly Benefit	\$5,015
TOTAL RETIREES	
Retired Members	103
Average Monthly Benefit	\$5,941

ARKANSAS JUDICIAL RETIREMENT SYSTEM

BOARD OF TRUSTEES

ROBERT EDWARDS, Chairman
Circuit Judge

GAYLE FORD
Circuit Judge (Ret.)

COLLINS KILGORE
Circuit Judge

CAROL CRAFTON ANTHONY
Circuit Judge

JIM GUNTER
Supreme Court Justice

December 15, 2007

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

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2007. 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 2007 revenue from employer and employee contributions totaled \$5.1 million. This amount is approximately \$265,157 greater than fiscal year 2006.

Court fees for fiscal year 2007 were \$902,797, the same amount as fiscal year 2006.

Miscellaneous income was approximately \$15,629 for fiscal year 2007, an increase of \$15,619 from fiscal year 2006.

Net investment income for fiscal year 2007 was \$21.3 million (after investment expenses of \$789,864 (see page 25)), an increase of \$9.8 million from fiscal year 2006. Overall, the System's revenues increased by \$10.1 million from fiscal year 2006.

Expenses

Benefit payments for fiscal year 2007 were \$7.1 million, or \$55,015 greater than fiscal year 2006. Administrative expenses were \$56,922, of which \$23,900 was for professional fees and \$26,014 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.



Judge Robert Edwards
Chairman, AJRS Board



Gail H. Stone
Executive Director

Board of Trustees

The Honorable Robert Edwards, Chair

Circuit Judge
1600 E. Booth, Suite 500
Searcy, AR 72143
501-279-6212

The Honorable Gayle Ford

Retired Circuit Judge
P.O. Box 1586
Mena, AR 71953
479-394-5475

The Honorable Collins Kilgore

Circuit Judge
401 W. Markham, Suite 330
Little Rock, AR 72201
501-340-8534

The Honorable Carol Crafton Anthony

Circuit Judge
101 N. Washington, Suite 203
El Dorado, AR 71730
870-864-1947

The Honorable Jim Gunter

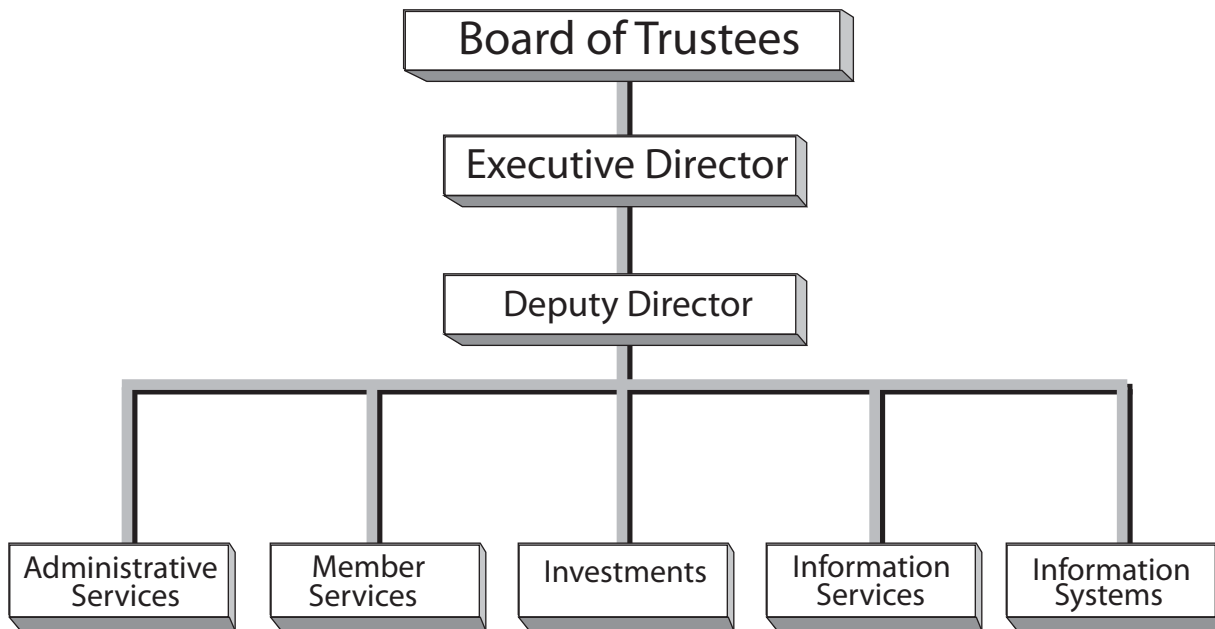
Supreme Court Justice
Justice Building
625 Marshall St.
Little Rock, AR 72201
501-682-6876

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
Jim Chandler	Chief Financial Officer
Becky Walker	Administrative Service Manager
Jackie Parrish	Member Service Manager
Jon Aucoin	Information Service Manager
Phillip Norton	Information Systems Manager

Professional Consultants

Custodian Bank
The Bank of New York Mellon
 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

<p>Loomis, Sayles & Company, L.P. One Financial Center Boston, MA 02111</p>
<p>Boston Partners Asset Management 28 State Street Boston, MA 02109</p>
<p>Batterymarch Financial Management, Inc. 200 Clarendon Street Boston, MA 02116</p>
<p>Capital Guardian Trust Co. 333 South Hope Street Los Angeles, CA 90017</p>
<p>ING Investment Management Co. 10 Statehouse Square - SH13 Hartford, CT 06103</p>

Legislative Auditors' Report

Financial Statements

Statement of Plan Net Assets

Statement of Changes in Plan Net Assets

Notes to the Financial Statements

Description of the System

Summary of Significant Accounting Policies

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Required Supplementary Information

Schedule of Employer Contributions

Schedule of Funding Progress

Notes to Required Supplementary Information

Supporting Schedules

Schedule of Investment Expense

Schedule of Payments for Professional Consultants

Schedule of Administrative Expense

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Sen. Randy Lavery
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, 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, 2007, 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 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, 2007, and the changes in its financial position 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, 2007, and the changes in financial position thereof 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 February 5, 2008 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 2006-2007 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

A handwritten signature in black ink, appearing to read "Roger A. Norman".

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 5, 2008

Statement of

Plan Net Assets

June 30, 2007 and 2006

ASSETS	2007	2006
Cash and Cash Equivalents	\$ 1,330,053	\$ 2,285,118
Receivables:		
Contributions	0	3,719
Investment Principal Receivable	490,313	328,130
Accrued Investment Income Receivable	<u>69,194</u>	<u>60,190</u>
Total Receivables	559,507	392,039
Investments At Fair Value:		
Government Securities:		
U.S. Government Securities	0	0
U.S. Government Agency Securities	0	0
Corporate Securities:		
Fixed Income Co-Mingled	70,534,452	66,671,435
Collateralized Obligations	0	0
Corporate Bonds	0	0
Common Stock	68,660,911	57,401,104
International Securities:		
Global Co-Mingled	<u>28,843,200</u>	<u>23,102,413</u>
Total Investments	168,038,563	147,174,952
Fixed Assets, Net*	<u>0</u>	<u>0</u>
TOTAL ASSETS	169,928,123	149,852,109
LIABILITIES		
Accrued Expenses and Other Liabilities	234,382	207,679
Investment Principal Payable	<u>313,133</u>	<u>354,487</u>
TOTAL LIABILITIES	<u>547,515</u>	<u>562,166</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$169,380,608</u>	<u>\$149,289,943</u>

(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, 2007 and 2006

ADDITIONS	2007	2006
<u>Contributions:</u>		
Employer	\$ 4,279,219	\$ 4,001,902
Employee	811,739	823,899
Court Fees	<u>902,797</u>	<u>902,797</u>
Total Contributions	5,993,755	5,728,598
<u>Investment Income:</u>		
Interest	561,473	711,825
Dividends	846,656	789,070
Investment Gain	<u>20,638,984</u>	<u>10,721,678</u>
Total Investment Income	22,047,113	12,222,573
Less: Investment Expense	<u>789,864</u>	<u>754,843</u>
Net Investment Income	21,257,249	11,467,730
<u>Other Additions:</u>		
Miscellaneous Additions	<u>15,629</u>	<u>10</u>
TOTAL ADDITIONS	27,266,633	17,196,338
DEDUCTIONS		
Benefits	7,119,046	7,064,031
Refunds of Contributions	0	0
Administrative Expenses	<u>56,922</u>	<u>46,486</u>
TOTAL DEDUCTIONS	7,175,968	7,110,517
NET INCREASE	20,090,665	10,085,821
NET ASSETS		
Beginning of Year	<u>149,289,943</u>	<u>139,204,122</u>
End of Year	<u>\$169,380,608</u>	<u>\$149,289,943</u>

The Financial Statements

For The Years Ending June 30, 2007 and 2006

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, 2007, 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, 2007 and 2006, Membership was as follows:

	<u>2007</u>	<u>2006</u>
Retirees and Beneficiaries Receiving Benefits	103	101
Terminated Plan Members Entitled To But Not Receiving Benefits	1	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 \$1,330,053 at June 30, 2007. This total consisted of cash deposits with financial institutions of \$271,445, STIF accounts in the amount of \$1,013,988, and \$44,620 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, 2007 none of the System’s bank balance of \$271,445 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, 2007, the System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic Equity Securities	\$ 68,660,911
Global Commingled	28,843,200
Domestic Fixed Income Commingled	<u>70,534,452</u>
Total	\$168,038,563

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 \$168,038,563 investments at June 30, 2007, none were 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, 2007, the System had \$70,534,452 invested in a commingled fixed income fund with an average maturity of 7.804 years.

Pooled Funds - AJRS has approximately \$29 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.

<u>Standard & Poor’s</u>		<u>Moody’s Investor Service</u>	
Not Rated	70,534,452	Not Rated	70,534,452
Totals	70,534,452	Totals	70,534,452

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, 2007 and 2006 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.

	<u>2007</u>	<u>2006</u>
Members Deposit Account	\$ 11,905,646	\$ 11,078,278
Members Deposit Account Interest Reserve	698	698
Employer Accumulation Account	79,205,970	60,214,264
Retirement Reserve Account	<u>78,268,294</u>	<u>77,996,703</u>
Total	<u>\$169,380,608</u>	<u>\$149,289,943</u>

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 \$(2,815,020) as of June 30, 2007.

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	\$ 82,164,912	\$ 0	\$ 82,164,912
Age and service allowances based on total service likely to be rendered by present active members	102,501,921	30,008,997	74,492,924
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	1,260,157	948,638	311,519
Disability benefits likely to be paid to present active members	1,778,102	1,164,784	613,318
Death in service benefits likely to be paid on behalf of present active members	<u>1,946,174</u>	<u>756,509</u>	<u>1,189,665</u>
Total	189,651,266	32,878,928	156,772,338
Applicable Assets (Funding Value)	<u>159,587,358</u>	<u>0</u>	<u>159,587,358</u>
Liabilities to be covered by future contributions	<u>\$ 30,063,908</u>	<u>\$32,878,928</u>	<u>\$ (2,815,020)</u>

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, 2007. The actuarial assumed interest rate of 7.5% 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 2007 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 \$7.7 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 1995-2007

Fiscal Year	Annual Required Contribution	Percentage Contributed (1)
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
2007	5,182,016	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)
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%
2007	159,587	157,373	(2,214)	101.4%	17,334	(13%)

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, 2007
Actuarial Cost Method	Entry age
<u>Amortization Method:</u>	
Tier I	Level percent of payroll
Tier II	Level percent of payroll
Remaining Amortization Period	30 year open
Asset Valuation Method	4 year smoothed market
<u>Actuarial Assumptions:</u>	
Investment Rate of Return	7.5%
Projected Salary Increases	4.0%
Including Price Inflation At	3.0%
<u>Post-Retirement Cost-of-Living Increases:</u>	
Pre July 1, 1983 Retirees	Increased with increases in active judges' pay
Post June 30, 1983 Retirees	3.0%, Compounded
Mortality Table	RP 2000 Annuity Mortality Table

Supporting Schedules

SCHEDULE OF INVESTMENT EXPENSE
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Custodian bank fees	\$ 15,000	\$ 15,000
Investment Consulting Fee	39,000	37,692
Investment Manager Fees	<u>735,864</u>	<u>702,151</u>
Total	<u>\$789,864</u>	<u>\$754,843</u>

SCHEDULE OF PAYMENTS FOR PROFESSIONAL CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Gabriel, Roeder, Smith & Company	\$23,900	\$12,550
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	<u>\$23,900</u>	<u>\$12,550</u>

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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Communications:		
Printing and advertising	\$ 3,814	\$ 4,865
Travel	905	1,265
Purchases:		
Office Supplies	0	150
Services and Charges:		
Professional Fees and Services	23,900	12,550
Bank & Federal Service Charges	<u>2,289</u>	<u>2,400</u>
Total Service and Charges	26,189	14,950
Transfer to APERS for Administration	<u>26,014</u>	<u>25,256</u>
Total Administrative Expenses	<u>\$ 56,922</u>	<u>\$46,486</u>

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INVESTMENTS

Report on Investments

Outline of Investment Policies

Actual vs. Target Asset Allocation

Manager Distribution

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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

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CALLAN ASSOCIATES^{INC}

Jeanne Valcik, CFA
Senior Vice-President



August 30, 2007

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

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 Russell 3000 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

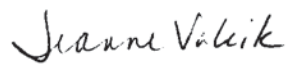
For the fiscal year 2007 AJRS produced a return of 14.41%. This fell short of the fund benchmark, as described above, by 0.86%.

The five-year annualized return of 10.26% exceeded the Fund's benchmark by 1.25%. In the Callan Public Fund Universe, AJRS' total fund performance ranks at the 80th percentile for five 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 exceeded the actuarially assumed interest rate assumption of 7.5%.

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,

A handwritten signature in cursive script that reads "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:

		Target
Domestic Equities	36% to 46%	41%
Int'l Equities	10% to 20%	15%
Fixed Income	39% to 49%	44%

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

**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% Russell 3000 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:

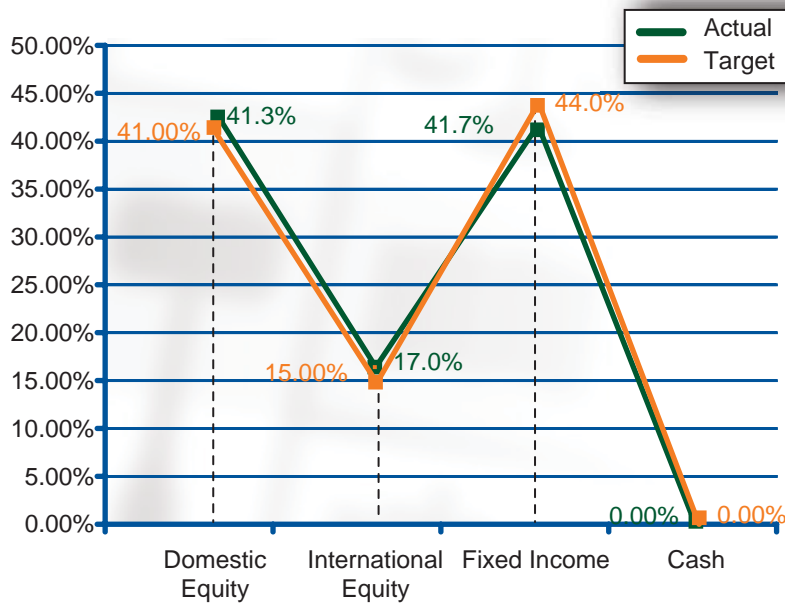
1. Substantive changes in investment strategy, portfolio structure and market value of managed assets,
2. The Manager’s progress in meeting the investment objectives set forth in this statement, and
3. Significant changes in the ownership, affiliations, organizational structure, financial condition, 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 Asset and Target Asset Allocation

For The Year Ending June 30, 2007



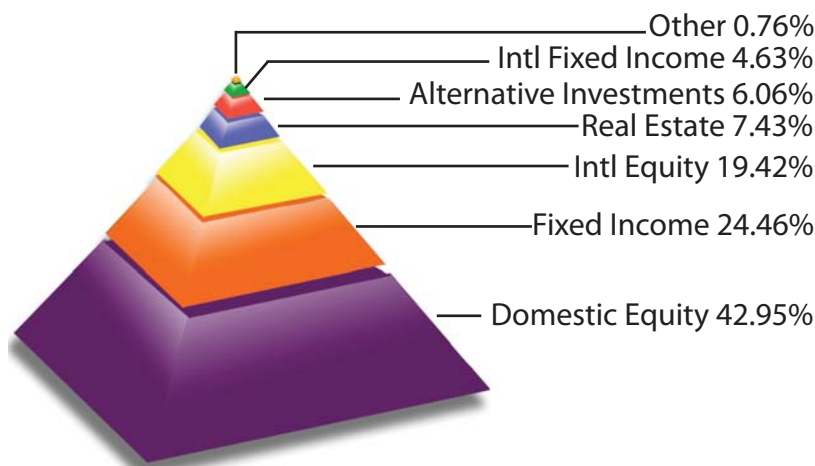
The graph to the left shows the Fund’s asset allocation as of June 30, 2007. For each pair of points, the green points represent each asset class in the Actual Funds asset allocation (see table below) as a percentage of all assets in the Fund.

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	\$ 69,901	41.3%	41%	0.3%	\$ 488
International Equity	28,843	17.0	15	2.0	3,448
Fixed Income	70,534	41.7	44	(2.3)	(3,957)
Cash	<u>21</u>	<u>0.0</u>	<u>0</u>	0.0	21
Total	\$169,299	100.0%	100%		

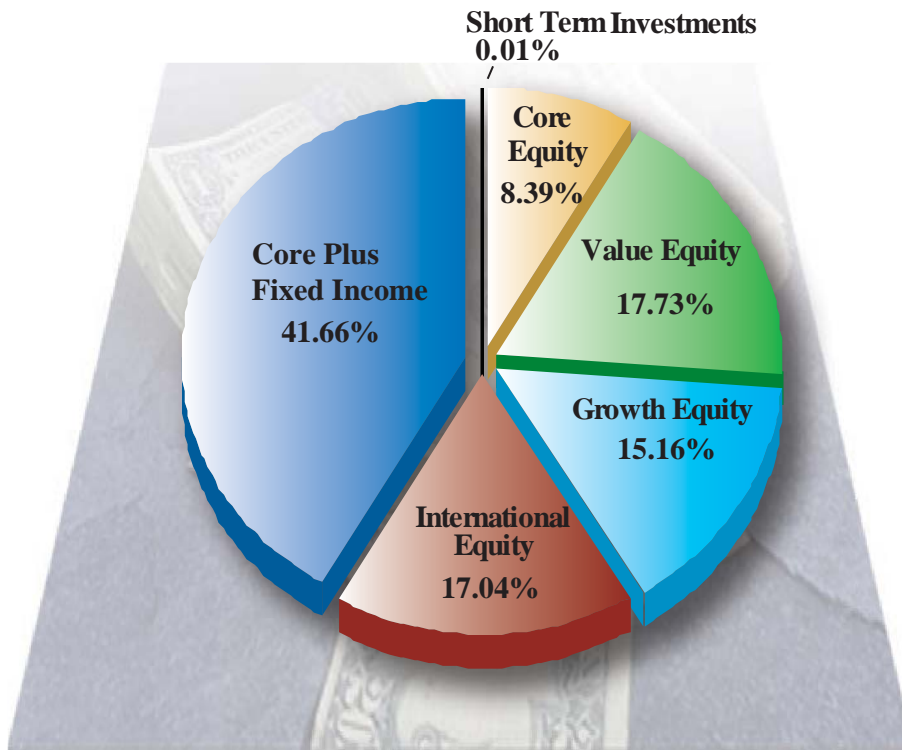
Public Plan Sponsor Database



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, 2007



INVESTMENT PORTFOLIO DISTRIBUTION
JUNE 30, 2007
(MARKET VALUE)

<u>Core Equity</u>	
Batterymarch Financial Management	\$ 14,211,437
<u>Value Equity</u>	
Boston Partners	30,019,327
<u>Growth Equity</u>	
Loomis Sayles & Co.	25,669,982
<u>International Equity</u>	
Capital Guardian	28,843,200
<u>Core Plus Fixed Income</u>	
ING Investment Management	70,534,452
<u>Short Term Investments</u>	
	20,527
<u>Total Investments</u>	<u>\$169,298,925</u>

Performance Comparison

For Fiscal Years Ended June 30

Fiscal Years Ended June 30	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Fund:					
Arkansas Judicial Retirement System	14.41%	8.87%	8.98%	14.19%	5.03%
Callan Total Public Fund Median	17.17	10.47	9.22	14.96	3.74
Inflation (Consumer Price Index)	2.67	4.47	2.59	3.17	2.10
Equities:					
Arkansas Judicial Retirement System	19.59%	10.37%	10.86%	24.36%	(0.75)%
Callan Total Equity Database Median	20.10	10.22	8.33	23.54	(0.16)
Standard & Poor's 500 Index	20.59	8.63	6.32	19.11	0.25
Fixed Income:					
Arkansas Judicial Retirement System	6.07%	(0.82)%	6.68%	0.64%	9.59%
Callan Total Fixed Income Database Median	6.21	(0.30)	6.82	0.71	10.58
Lehman Bros. Aggregate Index	6.12	(0.81)	6.80	0.32	10.40
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

Fiscal Years Ended June 30	<u>Annualized</u>		
	<u>2007</u>	<u>3-Year</u>	<u>5-Year</u>
Total Fund:			
Arkansas Judicial Retirement System	14.41%	10.72%	10.26%
Callan Total Public Fund Median	17.17	12.57	11.49
Inflation (Consumer Price Index)	2.67	3.24	3.00
Equities:			
Arkansas Judicial Retirement System	19.59%	13.53%	12.55%
Callan Total Equity Database Median	20.10	14.12	13.47
Standard & Poor's 500 Index	20.59	11.68	10.71
Fixed Income:			
Arkansas Judicial Retirement System	6.07%	3.92%	4.40%
Callan Total Fixed Income Database Median	6.21	4.20	4.71
Lehman Bros. Aggregate Index	6.12	3.98	4.48
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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Selected Bond Characteristics:		
Yield to Maturity (Market)	6.01%	5.90%
Current Yield	5.69	5.61
Average Coupon Rate	4.81	5.49
Average Maturity	9.11Yrs.	8.23 Yrs.
Quality Breakdown		
AAA (Includes Govts. & Agencies)	75.20%	69.69%
AA	2.10	3.45
A	4.90	3.58
BAA	12.40	18.19
*Cash	5.40	5.09
Selected Stock Characteristics:		
Average P/E Ratio	17.90x	17.60x
Estimated Earnings Growth Rate (Next 5 Years)	14.74%	13.30%
Current Yield	1.22%	2.10%
* Includes Short Term Investment Fund		
Source: Callan Associates		

List of

Ten Largest Assets Held

Fiscal Year Ended June 30, 2007

Fixed Income Holdings (By Market Value)

	Description	Coupon	Maturity	Market Value
1)	U.S. Treasury Note	4.750%	5/31/2012	\$ 4,944,458
2)	U.S. Treasury Note	4.875%	5/31/2009	2,504,405
3)	FNMA TBA Jul 30 Yr.	5.000%	7/15/2037	2,503,970
4)	FNMA TBA Jul 30 Yr.	6.000%	7/15/2037	2,252,751
5)	U.S. Treasury Bond	4.500%	2/15/2036	1,908,569
6)	FNMA TBA Jul 30 Yr.	6.500%	7/15/2037	1,769,061
7)	U.S. Treasury Note	4.500%	5/15/2017	1,456,395
8)	U.S. Treasury Note	4.500%	5/15/2010	1,410,822
9)	FHLMC TBA Jul 30 Yr.	6.500%	7/15/2037	1,326,958
10)	FNMA TBA Jul 30 Yr.	5.500%	7/15/2037	<u>1,257,566</u>
	Total			<u>\$21,334,955</u>

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

Equity Holdings (By Market Value)

	Shares	Description	Market Value
1)	34,370	Hewlett Packard Co.	\$ 1,533,589
2)	22,577	Citigroup Inc.	1,157,974
3)	23,800	J.P. Morgan Chase & Co.	1,153,110
4)	14,249	Conoco Phillips	1,118,547
5)	1,904	Google Inc. Cl A	996,516
6)	11,000	Exxon Mobil Corp.	922,680
7)	32,645	Cisco Systems Inc.	909,163
8)	7,001	Apple Inc.	854,402
9)	7,850	Int'l Business Machines Corp.	826,213
10)	11,315	American Int'l Group Inc.	<u>792,389</u>
		Total	<u>\$10,264,583</u>

International Equity Holdings (By Market Value)

	Description	Market Value*
1)	Royal Dutch Shell	\$ 816,557
2)	Sumitomo Mitsui Financial Group	541,950
3)	Softbank	541,930
4)	Royal Bank of Scotland Group	502,376
5)	Potash Corp.	484,127
6)	ING Groep	434,306
7)	Bouygues	417,018
8)	American Movil	410,130
9)	Sanofi-Aventis	382,104
10)	Novartis	<u>358,095</u>
	Total	<u>\$ 4,888,593</u>

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

Brokerage Commissions

As of June 30, 2007

<u>Broker</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Goldman Sachs	\$ 408,549	\$12,129	0.03
ITG	566,603	7,825	0.01
UBS Securities	146,534	5,756	0.04
Merrill Lynch	148,074	5,591	0.04
Liquidnet Inc.	209,814	5,363	0.03
Credit Suisse First Boston	211,860	4,912	0.02
J.P. Morgan Securities	125,177	4,846	0.04
Bear Stearns & Company	139,102	4,671	0.03
Lehman Brothers Inc.	170,177	4,333	0.03
CitiGroup Global Markets Inc.	105,671	4,133	0.04
Banc of America Securities L.L.C.	67,777	2,584	0.04
Weeden & Co.	134,340	2,122	0.02
Sanford Bernstein	63,827	2,017	0.03
Pipeline Trading Systems	71,523	1,725	0.02
Keefe, Bruyette & Woods Inc.	73,155	1,476	0.02
Citation Group	37,315	1,460	0.04
Stifel, Nicolaus & Co. Inc.	22,525	1,033	0.05
Pulse Trading	58,150	974	0.02
Jefferies & Co. Inc.	46,225	899	0.02
Prudential	28,534	784	0.03
Deutsche Bank, A.G.	16,758	714	0.04
Broadcort	15,075	696	0.05
Blair, William & Co. L.L.C.	13,550	678	0.05
Morgan Stanley & Co.	34,182	616	0.02
Cowen & Co.	17,521	613	0.03
Others (includes 49 brokerage firms)	<u>417,031</u>	<u>9,918</u>	0.02
Total	<u>\$3,349,049</u>	<u>\$87,868</u>	0.03

Schedule of

Investment Fees

As Of June 30, 2007

<u>Equities</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Loomis, Sayles	\$25,669,982	\$ 91,298	38
Batterymarch Financial Management	14,211,437	112,171	85
Boston Partners	<u>30,019,327</u>	<u>162,006</u>	58
Total Equity	\$69,900,746	\$365,475	
<u>Fixed Income</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
ING Investment Management	\$70,534,452	\$187,551	27
<u>International Equity</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Capital Guardian Trust	\$28,843,200	\$183,112	71
<u>Other Services</u>		<u>Fee</u>	
Bank of New York (Custodian)		\$ 15,000	
Callan Associates (Consultant)		<u>39,000</u>	
Total Other Services		<u>\$ 54,000</u>	
Total Investment Service Fees		<u>\$790,138</u>	

Comparative Schedule

Of Investments

For The Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>U.S. Government Securities</u>		
U.S. Government Securities	\$ 0	\$ 0
U.S. Government Agency Securities	0	0
<u>Corporate Securities:</u>		
Fixed Income Co-Mingled	70,534,452	66,671,435
Collateralized Obligations	0	0
Corporate Bonds	0	0
Common Stock	68,660,911	57,401,104
<u>International Securities:</u>		
Global Co-Mingled	28,843,200	23,102,413
<u>Short-Term Investments</u>	<u>1,013,989</u>	<u>2,016,073</u>
Total Investments	<u>\$169,052,552</u>	<u>\$149,191,025</u>

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 25, 2007

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, 2007.

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

The Board of Trustees
October 25, 2007
Page 2

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, 2007 valuations were based upon assumptions that were recommended in connection with a study of experience through June 30, 2006.

On the basis of the 2007 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,

A handwritten signature in cursive script that reads "Norman L. Jones".

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

NLJ:dlh:mrh

Assumptions adopted by Board of Trustees after consulting with the Actuary

ECONOMIC ASSUMPTIONS

The investment return rate used in making the valuation was 7.5% 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. The wage inflation assumption was revised for the June 30, 2007 valuation.

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 RP-2000 mortality table for males and RP-2000 mortality table for females setback 2 years. Related values are shown on page 46. The mortality rates used in evaluating disability allowances were the RP-2000 mortality tables, set forward 10 years for males and set forward 10 years for females. 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.

Normal cost. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual entry-age actuarial cost method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement.
- Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The normal cost and the present value of future normal cost is based on the benefit levels of Tier Two members. The present value of benefits is based on the benefit levels available to each member. The accrued liability is the difference between the present value of benefits and the present value of normal cost.

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.).

Actuarial Methods and Assumptions

Summary of

June 30, 2007 Valuation

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry age
<u>Amortization Method:</u>	
Tier I	Level percent of payroll
Tier II	Level percent of payroll
Remaining Amortization Period	30 year open
Asset Valuation Method	4 year smoothed market
<u>Actuarial Assumptions:</u>	
Investment Rate of Return	7.5%
Projected Salary Increases	4.0%
Including Price Inflation At	3.0%
<u>Post-Retirement Cost-of-Living Increases:</u>	
Pre July 1, 1983 Retirees	Increased with increases in active judges' pay
Post June 30, 1983 Retirees	3.0%, Compounded
Mortality Table	RP 2000 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 3% Annually		Future Life Expectancy (Years)		Sample Ages	\$100 Benefit Increasing 3.0% Annually	Portion of Age 65 Lives Still Alive	
	Men	Women	Men	Women	Men	Women			Men	Women
50	\$ 143.36	\$ 147.93	\$ 200.83	\$ 211.69	31.73	35.49	65	\$ 100.00	100%	100%
55	135.52	141.53	184.35	197.14	27.09	30.77	70	115.93	93	95
60	125.48	133.14	165.40	180.08	22.61	26.17	75	134.39	82	87
65	113.36	122.74	144.57	160.93	18.40	21.78	80	155.80	66	76
70	99.61	110.71	122.79	140.52	14.59	17.75	85	180.61	45	60
75	84.39	97.07	100.55	119.21	11.19	14.08				
80	68.47	82.31	78.95	97.82	8.27	10.85				

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

* Single Life Retirement Values. Based on RP2000 Mortality Table and 7.5% Interest.

Summary of

Actuarial Methods and Assumptions

June 30, 2007 Valuation

SEPARATION FROM ACTIVE EMPLOYMENT BEFORE AGE AND SERVICE RETIREMENT

Sample Ages	Years of Service	Percent of Active Members Separating Within The Next Year				Withdrawal For Other Reasons (Male and Female)
		Male		Female		
		Death	Disability	Death	Disability	
	0					10.00%
	1					6.00
	2					4.20
	3					3.36
	4					3.02
30	5+	0.02%	0.04%	0.01%	0.05%	0.70
35		0.04	0.04	0.02	0.05	0.70
40		0.05	0.10	0.03	0.18	0.70
45		0.07	0.13	0.05	0.20	0.70
50		0.10	0.25	0.07	0.28	0.70
55		0.16	0.45	0.11	0.38	0.70
60		0.30	0.71	0.20	0.51	0.70
65		0.56	0.83	0.38	0.62	0.70

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

Actuarial Methods and Assumptions

Summary of

June 30, 2007 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		

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

ACTIVE MEMBERS - HISTORIC COMPARATIVE SCHEDULE

Valuation Date	Annual Valuation	Average Pay		
		Number	Payroll (\$ Millions)	Dollars % Increase
June 30				
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
2007	134	17.3	129,358	1.9

For Tier I, 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.

For Tier II, a member was assumed eligible to retire at age 50 with 20 years of service, or at age 65 with eight years of service. A member was assumed eligible to retire early at age 62 with eight years of service.

Tabulated By Attained Age

Retirees and Beneficiaries

As Of June 30, 2007

Attained Age	Retirees		Survivors/Beneficiaries		Total	
	No.	Annual Allowances	No.	Annual Benefits	No.	Annual Allowances
49			2	\$101,172	2	\$101,172
56	1	\$ 76,236			1	76,236
59	1	78,108			1	78,108
60	2	161,796			2	161,796
61	3	251,544			3	251,544
62	3	206,532	2	120,900	5	327,432
63			1	53,412	1	53,412
64	4	287,400	2	103,596	6	390,996
65	2	153,816	1	55,824	3	209,640
66	3	232,512	1	55,104	4	287,616
67	2	96,216			2	96,216
68	1	13,116			1	13,116
69	4	366,720			4	366,720
70	6	462,900			6	462,900
71	3	225,996	1	52,536	4	278,532
72	6	508,272			6	508,272
73	2	162,696	2	103,416	4	266,112
74	1	88,848			1	88,848
75	4	314,208			4	314,208
76	2	152,820	1	51,708	3	204,528
77	2	150,384			2	150,384
78	2	161,604	2	103,416	4	265,020
79	1	77,184	3	155,136	4	232,320
80			2	103,416	2	103,416
81	3	302,232	1	51,708	4	353,940
82	4	298,428			4	298,428
83	3	271,956			3	271,956
84	1	80,976	1	51,708	2	132,684
85			1	51,708	1	51,708
86	2	154,356			2	154,356
87	2	156,900	1	51,708	3	208,608
89	1	77,184			1	77,184
90	1	77,184	1	51,708	2	128,892
91	1	80,976			1	80,976
92			1	51,708	1	51,708
93	1	77,184			1	77,184
94			1	59,532	1	59,532
98			1	55,104	1	55,104
101			1	51,708	1	51,708
Totals	74	\$5,806,284	29	\$1,536,228	103	\$7,342,512

Active Members

By Attained Age and Years of Service

As Of June 30, 2007

Tier I

Attained Age	Years of Service to Valuation Date						No.	Total Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29		
40-44		1					1	\$ 128,633
45-49		1					1	128,633
50-54		1	2	1			4	514,532
55-59		6	7	3	1	1	18	2,319,619
60			1	4			5	643,165
61			2				2	257,266
62		1	2		1		4	514,532
63			2	1			3	385,899
64		1		1			2	261,491
65			1				1	128,633
66		1		1			2	257,266
67				2			2	261,491
69				1	1		2	257,266
73					1		1	128,633
74				1			1	128,633
Totals		12	17	15	4	1	49	\$6,315,692

Tier II

Attained Age	Years of Service to Valuation Date						No.	Total Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29		
35-39	2						2	\$ 257,266
40-44	4		1				5	655,840
45-49	7	2	1				10	1,294,780
50-54	12	6	2	2			22	2,834,151
55-59	4	5	2	8	3		22	2,838,373
60	2	2			3		7	904,656
61	2						2	257,266
63	3				1	1	5	655,837
64					1		1	128,633
65				1	1		2	261,491
66				1	1		2	265,713
68					1	1	2	261,491
69						2	2	274,160
70						1	1	128,633
Totals	36	15	6	12	11	5	85	\$11,018,290

Averages

Group	No.	Age	Service	Annual Pay
Tier I	49	59.8 years	14.4 years	\$128,892
Tier II	85	55.3 years	10.4 years	\$129,627

Analysis of Financial Experience

For The Year Ended June 30, 2007

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	\$11,459,348
(2) Normal cost from last valuation	4,415,551
(3) Employer contributions	5,182,016
(4) Interest accrual: (1)*.070+((2)-(3))* .035	775,328
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	11,468,211
(6) Change in actuarial assumptions@	(5,960,608)
(7) Expected UAAL after changes: (5) + (6)	5,507,603
(8) Actual UAAL at end of year	<u>(2,214,616)</u>
(9) Gain (loss): (7) - (8)	<u>\$ 7,722,219</u>
(10) Gain (loss) as percent of actuarial accrued liabilities at start of year: \$150,509,614	4.9%

* Unfunded actuarial accrued liability.

@ Including transfers and data changes.

Analysis of Financial Experience

Gains and Losses By Risk Area

Year Ended June 30, 2007

Type of Risk Area	Gain/(Loss) During Year	
	\$ in Millions	Percent of Liabilities
ECONOMIC RISK AREAS		
<u>Pay Increases</u>		
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.	\$1.9	1.2 %
<u>Investment Return</u>		
If there is greater investment return than assumed, there is a gain. If less return, a loss.	5.5	3.5 %
NON-ECONOMIC RISK AREAS		
<u>Age & Service Retirements</u>		
If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	0.0	0.0 %
<u>Disability Retirements</u>		
If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.3	0.2 %
<u>Death-in-Service Benefits</u>		
If there are fewer claims than assumed, there is a gain. If more, a loss.	0.1	0.1 %
<u>Withdrawal</u>		
If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	0.1	0.1 %
<u>Retiree Mortality</u>		
If there are fewer deaths than assumed, there is a loss. If more, a gain.	0.1	0.1 %
<u>Other</u>		
Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources.	<u>(0.3)</u>	<u>(0.2)%</u>
Experience Gain/(Loss)	<u>\$7.7</u>	<u>4.9 %</u>

Summary of Plan Provisions

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 AND 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.

July 1, 2007

Summary of Plan Provisions

TIER I

TIER II

DISABILITY RETIREMENT

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.

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

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 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.

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.

SURVIVOR BENEFITS

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.

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

TIER I

TIER II

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 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%.

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%.

MEMBER CONTRIBUTIONS

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.

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.

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

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Schedule of

Revenues By Source

For Fiscal Years 2002-2007

Year Ending June 30	Employee Contributions	Employer & Other Entity Contributions	Court Fees	Misc.	Investment Income	Total
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
2007	811,739	4,279,219	902,797	15,629	21,257,249	27,266,633

Schedule of

Expenses By Type

For Fiscal Years 2002-2007

Year Ending June 30	Benefit Payments	Refunds	Administrative Expenses	Total
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
2007	7,119,046	0	56,922	7,175,968

Schedule of

Benefit Expenses By Type*

For Fiscal Years 2002-2007

Year Ended June 30	Age & Service		Disability
	Retirees	Survivors	Retirees
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
2007	5,657,487	1,536,228	148,797

* Expenses are based on June 30 benefit amounts annualized.

Schedule of

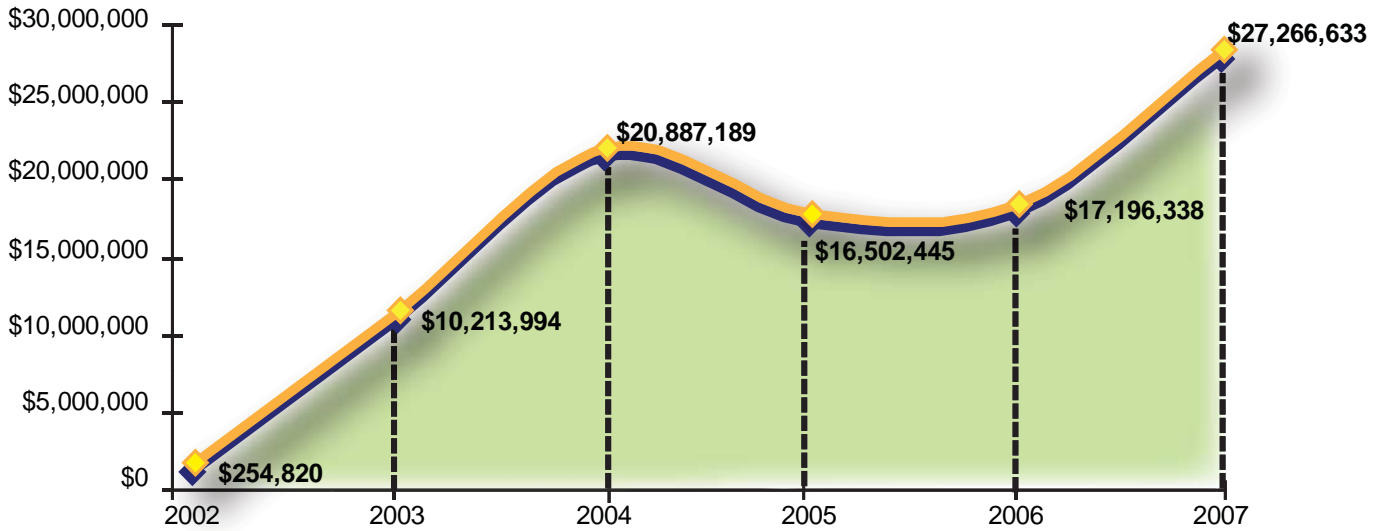
Retired Members By Type of Benefit

As of June 30, 2007

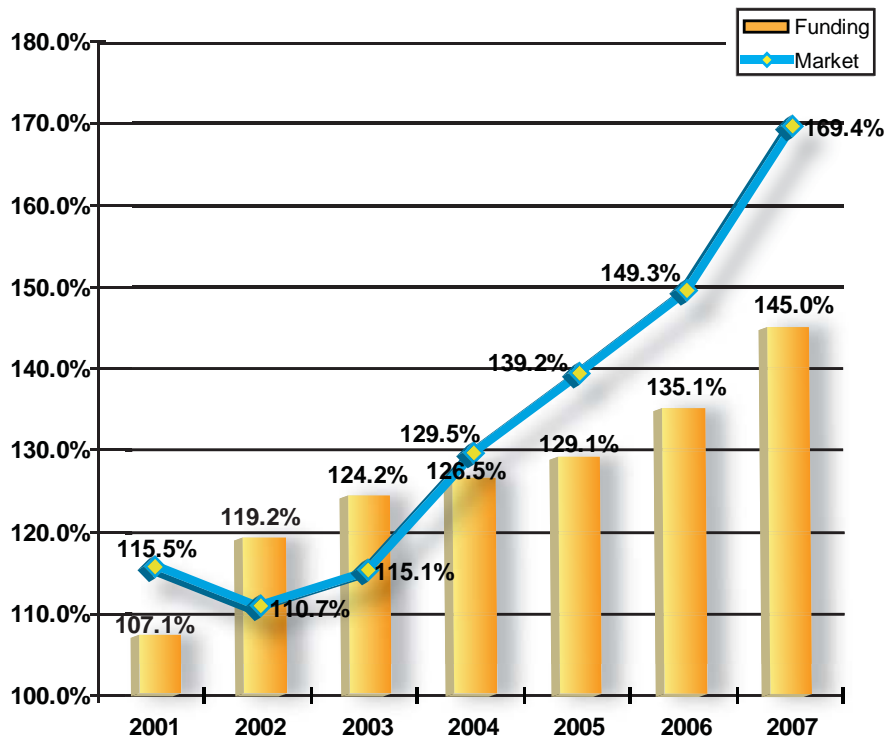
Type of Annuity	Number	Annual Annuities	Annual Liabilities
Age & Service Retirees			
Life	11	\$ 801,729	\$ 8,451,360
Option Continuing to Survivor	<u>61</u>	<u>4,855,758</u>	<u>57,069,408</u>
Totals	72	5,657,487	65,520,768
Beneficiaries of Age & Service Retirees	<u>29</u>	<u>1,536,228</u>	<u>15,247,680</u>
Total Age & Service Retirees and Beneficiaries	101	7,193,715	80,768,448
Disability Retirees			
Life	<u>1</u>	66,549	841,020
Life Continuing to Survivor	<u>1</u>	<u>82,248</u>	<u>555,444</u>
Totals	2	148,797	1,396,464
Beneficiaries of Disability Retirees	<u>0</u>	<u>0</u>	<u>0</u>
Total Disability Retirees and Beneficiaries	2	148,797	1,396,464
Death in Service Beneficiaries	<u>0</u>	<u>0</u>	<u>0</u>
Grand Total of All Retirees and Beneficiaries	<u>103</u>	<u>\$7,342,512</u>	<u>\$82,164,912</u>

Statistical Graphs

Revenues for Fiscal Years 2002-2007

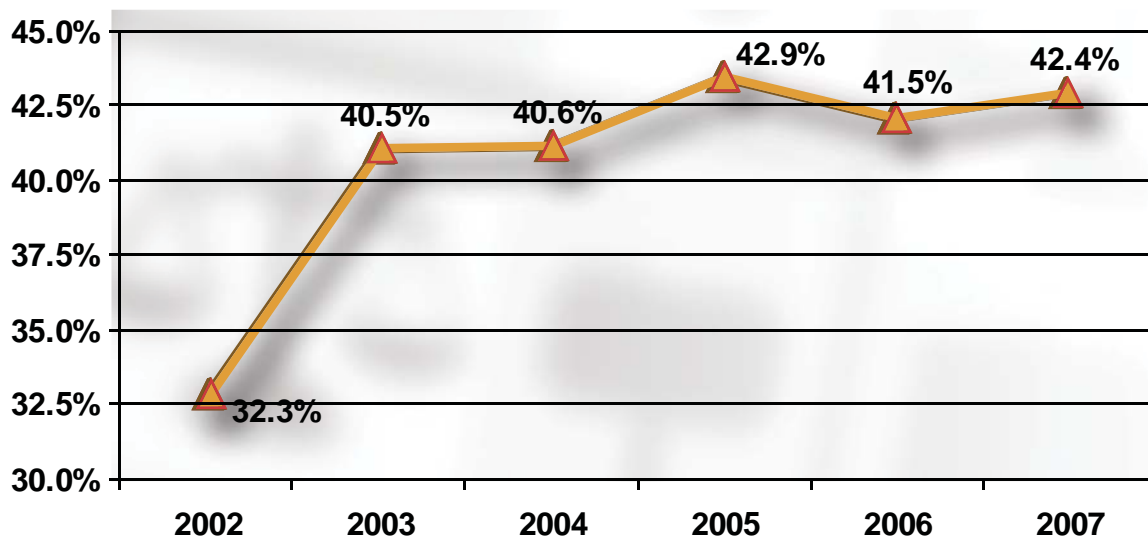


Comparison of Market Values
Fiscal Years 2001-2007



Statistical Graphs

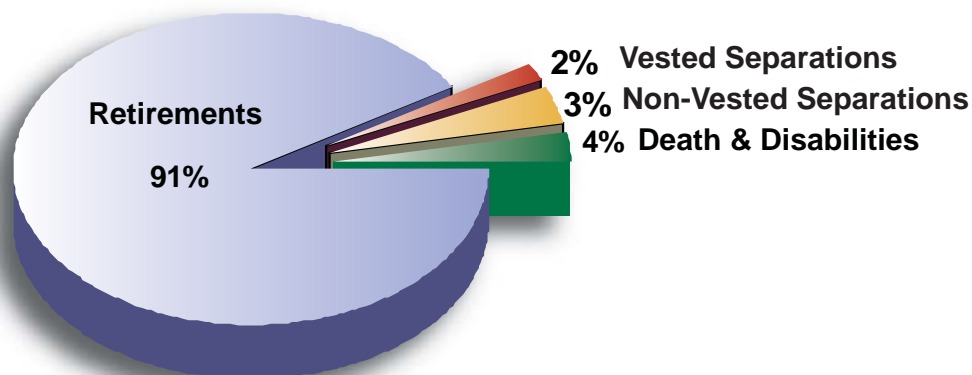
Annual Benefits As a Percent of Payroll
2002 - 2007



Ratio of Active Members to Retired Members



Expected Termination from Active Employment for Current Active Members



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