



**Public Pension Coordinating Council
Public Pension Standards
2004 Award**

Presented to

Arkansas Teacher Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

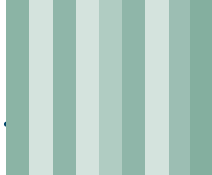
A handwritten signature in black ink, reading 'Alan H. Winkle', is positioned above the printed name.

Alan H. Winkle
Program Administrator

2004 | COMPREHENSIVE ANNUAL FINANCIAL REPORT



A Pension Trust Fund of the State of Arkansas



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INTRODUCTION

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2004



Letter of Transmittal

December, 2004

*The Honorable Mike Huckabee and
Members of the 85th General Assembly*

Dear Governor and members of the General Assembly:

The Arkansas Teacher Retirement System (the 'System' or ATRS) is pleased to submit this 62nd Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. It provides comprehensive information on the retirement plan that we administer. Responsibility for both the accuracy of the data and the completeness and fairness of presentation rests with the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and presents fairly the System's financial status and changes in financial condition.

The 2004 Financial Report is presented in five sections. Contents are summarized below (a detailed Table of Contents may be found on Page 2).

- **Introductory Section:**
Contains this Transmittal Letter, organization chart and the Board.
- **Financial Section:**
Provides the System's financial statements, required supplementary information, and supporting schedules with additional information about the System's expenses.
- **Investment Section:**
Includes the investment consultant's report, investment policies, asset allocation, and investment results.
- **Actuarial Section:**
Provides the certification letter from the independent actuary, supporting schedules, and a summary of plan provisions.
- **Statistical Section:**
Presents schedules and tables of comparative data related to the membership, active and retired, of the System.

On March 17, 1937, ATRS was established by Act 266 of 1937. ATRS is a combination contributory/non-contributory retirement system governed by the State's retirement law, Chapter 24 of the Arkansas Code. ATRS is one of five State-supported retirement systems and provides retirement, disability and survivor's benefits to employees of Arkansas public schools and educationally related agencies. The system consists of 404 participating employers (see pages 66 - 68).

Since beginning my tenure in January of 2003, ATRS has worked to earn the trust of the public, our members and our employers. We will continue to strive for excellence in everything we do. We have taken a fresh look at the goals and duties of this very public Agency. Although much has been accomplished, more remains to be done.

***The Honorable Mike Huckabee and
Members of the 85th General Assembly***

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December, 2004

Investments

As you are well aware, the investment climate has not been kind since late 2000. But with a late push in the markets, ATRS' investments held fairly steady for the past fiscal year.

A new consulting firm was hired in December, 2001, by the Board of Trustees (the 'Board'). The Board, with the help of the consultants and with my active encouragement, are slowly restructuring the overall portfolio to maximize opportunities that should come with the economic recovery taking hold.

One of the most aggressive implementations has been a true accountability system for the money managers employed by the ATRS. Operating within mutually agreed upon benchmarks for investment performance and a formal written policy of action has led to the dismissal of several money managers, who have not performed well within their respective sectors.

Additions/Deductions to Plan Net Assets

In a model retirement system, employer and employee contributions along with investment income should fund all retirement benefits and operating costs. This scenario leaves the investment nucleus untouched to continue to provide the required investment income.

Current year contributions of \$277.0 million covered 72.3% of the \$383.1 benefits paid, compared with a 74.1% coverage last year. This percent should increase in the short term as the result of a 1% employer contribution increase authorized during the 2003 legislative session. In addition, employer contributions due the System on members in the Teacher Deferred Retirement Option Plan (T-DROP) are being systematically phased up from 0% to 12% over a 10 year timetable. These increases will reduce the reliance on investment income, and build the fund nucleus.

Funding Status

Economic improvements provided positive results in the actuarial analysis for the fiscal year ended June 30, 2003. Although the funding status decreased from 93% at June 30, 2002 to 86% this year, amortization of the unfunded accrued liability decreased from 38 years to 36. This decrease reflects positive investing results and legislative changes implemented in the 2003 session. More detail is available in the actuarial section of this report.

***The Honorable Mike Huckabee and
Members of the 85th General Assembly***

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December, 2004

Internal Control

The Board, Administration, and the ATRS staff are in the final stages of implementing a new policy manual to more narrowly define agency direction and responsibility. Final editing on a comprehensive rewrite of the System's investment policies is under-way, in coordination with the investment consultant. These documents define the role of individual money managers of the System, assign a particular benchmark for performance assessment, and explicitly delineate the steps the Board will take for varying performance results.

Professional Services

The ATRS Board employs firms considered experts in their field to draw from pools of knowledge while getting other views of policy administration. The System's independent investment consultant is Ennis + Knupp & Associates, headquartered in Chicago, IL, and the independent actuary is Gabriel Roeder Smith & Company, headquartered in Southfield, MI.

Currently, the ATRS is relying on a regional CPA firm, Thomas & Thomas CPAs, LLP, to advise and assist in, the development of detailed real estate guidelines. It is the intent, once completed and in place, that these procedures will provide senior management and the Board more timely and accurate information regarding real estate investments, operations, and more productive results.

Acknowledgments

This report is intended to provide complete and reliable information as a foundation for management decisions, determining compliance with legal provisions, and determining conscientious administration of the System's funds. Compilation of this report symbolizes the collective efforts of the staff, under the direction of the Board of Trustees.

Copies of this report are available to all members of the System via request, and copies will be mailed to each employer with members in the System.

Respectfully submitted:

David R. Malone
Executive Director

Board of Trustees

The authority and responsibility for the administration, management and control of the Arkansas Teacher Retirement System (ATRS), and for the construing and carrying out the provisions of the plan is vested in the Board of Trustees by Act 427 of 1973, as amended. The Board is comprised of 15 persons. The State Bank Commissioner, the State Treasurer, the State Auditor, and the State Commissioner of Education serve as ex officio trustees.

Act 418 of 1997 provides that eleven (11) members shall be elected to the Arkansas Teacher Retirement System Board of Trustees. Seven trustees (7) shall be active members of the system with at least five (5) years of credited service in force; three (3) shall be retirants receiving an annuity paid by ATRS who are residents of the State of Arkansas, and one (1) shall be of a minority racial ethnic group, and may be either an active or retired member.

Position #1
Member Trustee
1st Congressional District

Robin Nichols
(Jonesboro)
Term Expires 6/30/2007

Position #2
Member Trustee
2nd Congressional District

*Linda Parsons, Chair
(Conway)
Term Expires 6/30/2004

Position #3
Member Trustee
3rd Congressional District

Lawrence Colston (Fayetteville)
Term Expires 6/30/2007

Position #4
Member Trustee
4th Congressional District

Betty McGuire (Malvern)
Term Expires 6/30/2005

Position #5
Member Trustee
Superintendent

Charles Dyer (Alma)
Term Expires 6/30/2006

Position #6
Member Trustee
Administrator

Monty Betts
(Searcy)
Term Expires 6/30/2009

Position #7
Member Trustee
Non-certified

Ellen Terry
(Ft. Smith)
Term Expires 6/30/2009

Position #8
Member Trustee
Minority

Hazel Coleman (Helena)
Term Expires 6/30/2009

Position #9
Retirant Trustee

*Dr. Paul Fair (Little Rock)
Term Expires 6/30/2004

Position #10
Retirant Trustee

*Winfred Clardy (Maumelle)
Term Expires 6/30/2005

Position #11
Retirant Trustee

John Fortenberry (Little Rock)
Term Expires 6/30/2006

Ex Officio Trustees

Robert H. "Bunny" Adcock, Jr.
State Bank Commissioner

Orken James, Director
State Department of Education

Gus Wingfield
State Treasurer

Jim Wood
State Auditor

* Members of the Arkansas Teacher Retirement System Investment Committee

Professional Consultants

Actuary

Gabriel Roeder Smith & Co.
1000 Town Center
Suite 1000
Southfield, MI 48075

Auditors & External Accountants

State Legislative Auditors
Thomas & Thomas CPAs

Data Processing

AR Dept. of Information Services
1 Capitol Mall
Room 30310
Little Rock, AR 72201

Legal Counsel

Dover & Dixon, P.A.
TCBY Building, Suite 3700
425 West Capitol
Little Rock, AR 72201

Mitchell, Williams, Selig
Gates, Woodyard PLLC
425 West Capitol, Suite 1800
Little Rock, AR 72201

Rose Law Firm
120 East 4th
Little Rock, AR 72201

Medical Board

Dr. John Stotts, Chairman
137 Pleasant Valley Drive
Little Rock, AR 72212

Dr. Worthie Springer
3810 DeBusk Circle
Little Rock, AR 72206

Dr. Ewing C. Reed
8 Combonne Court
Little Rock, AR 72211

Investment Consultant

ENNIS KNUPP & Associates
10 South Riverside Plaza, Suite 700
Chicago, IL 60606-3709

Custodian

Domestic and International

State Street Bank
State Street Financial Center
One Lincoln Street
Boston, MA 02111

Investment Counsel

ING Aeltus Investment Management
10 State House Square
Hartford, CT 06103-3602

Alliance Capital Management
U.S. Bank Place
602 2nd Ave South, Suite 5000
Minneapolis, MN 55402-4300

Blackstone Mezzanine Partners
345 Park Avenue
New York, NY 10154

Blackrock
40 East 52nd Street
New York, NY 10022

Capital Guardian Trust Company
333 South Hope Street
Los Angeles, CA 90071

Cinven
Pinners Hall
105-108 Old Broad St
London EC2N 1EH
ENGLAND

The Cypress Group
65 East 55th Street
19th Floor
New York, NY 10022

Diamond State Ventures
200 Commerce, Suite 400
Little Rock, AR 72201

Daruma Asset Management
80 West 40th Street
9th Floor
New York, NY 10018

Credit Suisse Real Estate –
Capital Partners
11 Madison Avenue
16th Floor
New York, NY 10010

Credit Suisse Merchant Banking III
Credit Suisse Mezzanine
11 Madison Avenue
16th Floor
New York, NY 10010

Doughty Hanson and Company
45 Pall Mall
London SW1Y5JG
ENGLAND

Doughty Hanson and Company
European Real Estate Fund
Times Place
45 Pall Mall
London UK SW1Y5JG
ENGLAND

Eubel Brady & Suttman
Asset Management
777 Washington Village Drive
Suite 210
Dayton, Ohio 45459

Hicks Muse Tate & Furst Inc
200 Crescent Court
Suite 1600
Dallas, TX 75201

ICC Capital Management
145 Montair Court
Danville, CA 94526

Kennedy Capital Management
10829 Olive Blvd
St. Louis, MO 63141-7739

Professional Consultants (continued)

Nicholas/Applegate
1345 Avenue of the Americas
New York, NY 10105

Oak Hill Capital Partners, L.P.
201 Main Street, Suite 2415
Fort Worth, TX 76102

Olympus Real Estate Fund
5080 Spectrum Drive, Suite 1050 East
Addison, TX 75001

Oppenheimer Capital
1345 Avenue of the Americas
49th Floor
New York, NY 10105-4800

PIMCO
840 Newport Center Drive
Suite 300
Newport Beach, CA 92660

RMK Timberland Group
110 Oakwood Drive
Suite 480
Winston-Salem, NC 27103

State Street Global Advisory
State Street Financial Center
One Lincoln Street
Boston, MA 02111

State Street Global Markets
State Street Financial Center
One Lincoln Street
Boston, MA 02111

The TCW Group
865 South Figueroa St
Suite 1800
Los Angeles, CA 90017

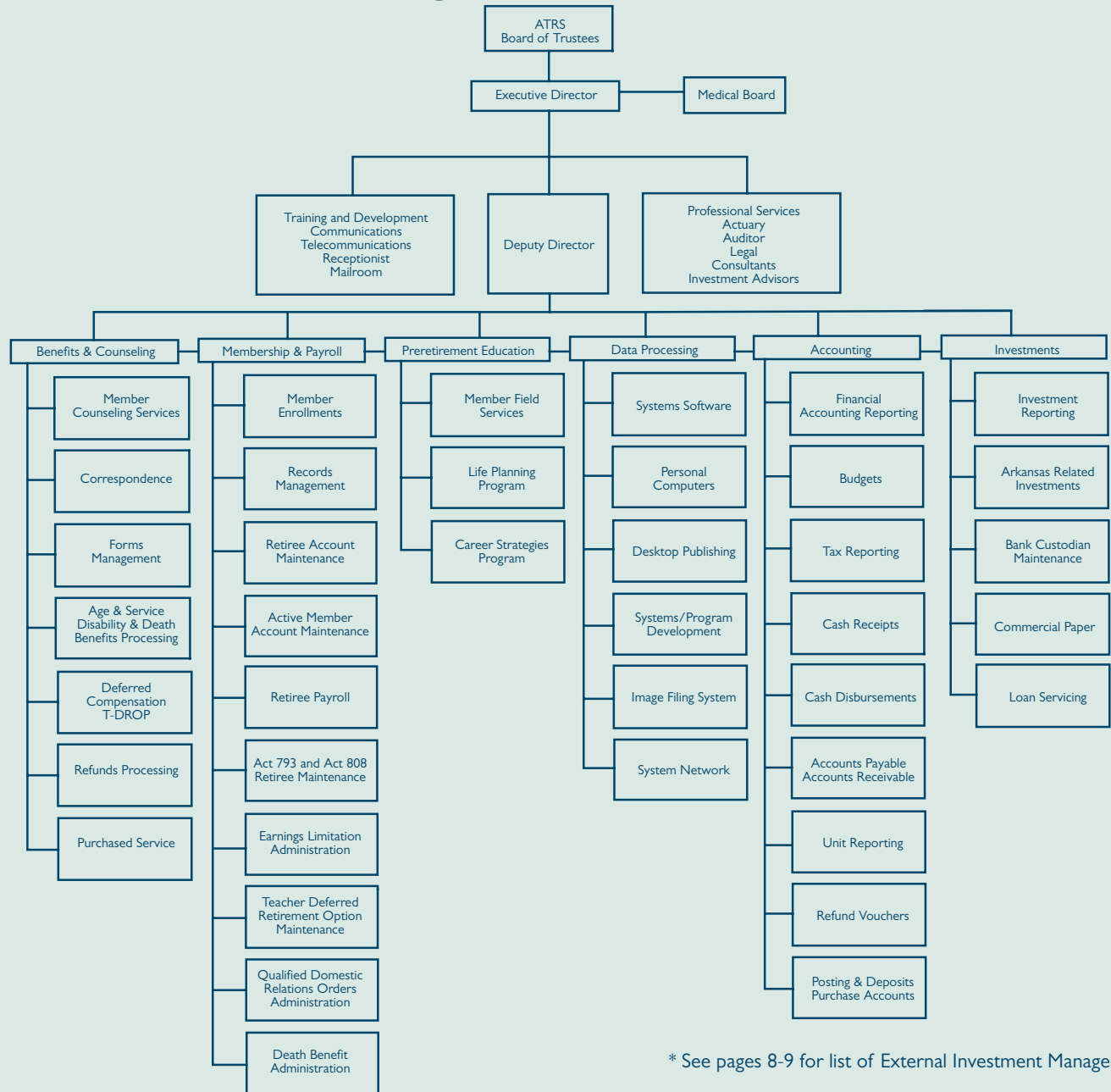
UBS Global Asset Management
UBS Tower
One Wacker Drive
Chicago, IL 60606

Wellington Management Company
75 State Street
Boston, MA 02109

Western Asset Management
117 East Colorado Boulevard
Pasadena, CA 91015

Westbrook Partners, LLC
599 Lexington Avenue
Suite 3800
New York, NY 10022

Organizational Chart



* See pages 8-9 for list of External Investment Managers

Administrative Staff

David R. Malone

Executive Director

George Snyder, CPA

Internal Controller

Gail Blair

Manager, Data Processing

Julie M. Cabe

Deputy Director

Bernice L.G. Smith

Manager, Accounting

Dena Dixon

Manager, Membership & Payroll

G. Wayne Greathouse

Associate Director, Investments

Michael S. Ray

Manager, Benefits & Counseling

Barbara Waldrop

Manager, Preretirement Education

FINANCIALS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2004



Statement of Plan Net Assets

As of June 30, 2004

	2004
Assets:	
Cash Held Outside the Treasury	\$ 36,441,545
Cash in Treasury	1,225,554
	<u>37,667,099</u>
Receivables:	
Other Receivables	206,102
Employer Contributions	4,545,689
Employee Contributions	10,785,823
Investment Principal Unsettled Trades	296,382,145
Interest and Dividends	14,666,922
Total Receivables	<u>326,586,681</u>
Securities Lending-Domestic & International	719,811,314
Total Investments at Fair Value	8,086,925,201
Net Property and Equipment	529,210
	<u>8,807,265,725</u>
Other Assets:	<u>3,110,822</u>
Total Assets	<u><u>9,174,630,327</u></u>
Liabilities:	
Accounts Payable	1,709,790
Accrued Expense	23,040
	<u>1,732,830</u>
Investment Principal Payable	331,082,147
Securities Lending Collateral	719,811,315
	<u>1,050,893,462</u>
Total Liabilities	<u>1,052,626,292</u>
Net Assets Available for Benefits	<u><u>\$8,122,004,035</u></u>

Statement of Changes in Plan Net Assets

for the Fiscal Year Ended June 30, 2004

		2004
Additions:		
Contributions:		
Employer		\$ 224,184,274
Employee		77,772,019
Total Contributions		<u>301,956,293</u>
Investment Income:		
Net Appreciation (Depreciation) in		
Fair Value of Investments		1,053,791,964
Interest		105,344,832
Dividends		62,893,705
Real Estate Operating Income		7,737,709
Other		4,144,197
From Securities Lending Activities:		
Lending Income	8,666,204	
Less Rebate & Fees	<u>(6,661,034)</u>	2,005,170
Less Investment Expense		<u>(40,576,514)</u>
Net Investment Income		<u>1,195,341,063</u>
Total Additions		1,497,297,356
Deductions:		
Annuity Benefits		413,433,516
Refund of Employer Contributions		54,880
Refund of Employee Contributions		3,963,004
Administrative Expenses		8,197,465
Total Deductions		<u>425,648,865</u>
Net Increase (Decrease)		1,071,648,491
Net Assets available for Benefits		
Beginning of year		<u>7,050,355,544</u>
End of year		<u>\$8,122,004,035</u>

Notes to Basic Financial Statements

June 30, 2004

I. DESCRIPTION OF PLAN

The following is a brief description of the Arkansas Teacher Retirement System (ATRS or the System). Participants should refer to their Summary Plan description for more complete information.

General Information

ATRS is a cost-sharing multiple-employer, defined benefit pension plan established by authority of the Arkansas General Assembly on March 17, 1937. The General Assembly is responsible for setting benefits and contributions and amending plan provisions. ATRS is a component unit of the State of Arkansas.

Membership

The ATRS is a mandatory retirement plan for full-time employees of the following agencies:

- Arkansas Activities Association
- Board of Education
- Department of Correction School
- Department of Education - General Division
- Educational Cooperatives
- Educational Television Commission
- Public Schools
- School for the Blind
- School for the Deaf
- Teacher Retirement System

Part-time employees are not eligible for membership in the System until they have worked thirty (30) days. All part-time employees must be members of ATRS if employed full-time in another covered position.

Unless an alternate retirement plan is selected, full-time employees above grade 17, of the following agencies are required to be members of ATRS:

- Colleges and Universities
- Department of Education (Vocational Division)
- Vocational-Technical Schools

At June 30, 2003, the latest actuarial valuation date, employee membership data was as follows:

Retirees and beneficiaries currently receiving benefits	22,320
Teacher Deferred Retirement Option Plan Participates	4,851
Terminated plan members entitled to but not yet receiving benefits	9,683
Active plan members	<u>71,462</u>
Total	<u><u>108,316</u></u>

The number of participating employers was 421.

DESCRIPTION OF PLAN (Continued)

Contributions

Members of ATRS are contributory or non-contributory. Contribution percentages are set by law and may only be amended by an act of the Arkansas General Assembly.

The employee rate for a contributory member is currently six percent of gross earnings, or \$7,800, whichever applies. Effective July 1, 1997, all member contributions are tax-deferred. These contributions are deposited in the Member Deposit Account.

Non-contributory members make no contributions to the System. If the member made contributions before July 1, 1986, they are not refundable until the member terminates covered employment. All new members are automatically placed in the contributory plan. Exceptions to this include new members employed on a part-time basis, new members employed without contracts and former active members returning to employment. Other exceptions may occur; however, after July 1, 1999, all full-time new employees will be contributory.

All school districts are members of the System and Act 1194 of 1995, amended by Act 340 of 2003, requires local school districts to pay the teacher retirement employer contribution rate for any eligible employee in accordance with the rules and regulations established by the Board. For the year ended June 30, 2004, the employer contribution rate was 13% of gross earnings.

Vesting

Five (5) years of Arkansas service credit are required for vesting purposes. Out-of-state, overseas, private school, sabbatical leave or military service may not be used for vesting purposes in ATRS.

Retirement, Disability, and Survivor Benefits

The System is a defined benefit pension plan that offers the following types of benefits: Active Membership retirement, Disability retirement, Survivor Benefit, Teacher Deferred Retirement Option Plan and Lump Sum Death benefit.

The retirement benefits are based on age and/or years of credited service and highest average salary. A member earns one year of service credit for 120 days of service; however, no more than one year of service credit may be earned in any fiscal year.

Members of the System may retire after 28 years of service at any age, after 5 or more years of service at age 60 or after 25 years of service at any age with a reduced benefit.

The disability benefits are payable to a member who has 5 or more years of credited service who has become or becomes totally and permanently incapacitated to perform the duties of his/her position in Arkansas service while an active member.

The survivor benefits are payable to qualified survivors upon the death of an active member with five or more years of credited service, including service for the year immediately preceding death. If no monthly survivor benefits are payable, a lump sum of the member's contribution plus interest is paid to the designated beneficiary.

The Teacher Deferred Retirement Option Plan (T-DROP) was designed to allow teachers having 30 or more years of service credit to freeze retirement benefits and continue working in a position covered by this system. Members of any Arkansas reciprocal system may count their combined service in the systems to meet service requirements for benefits under the System's deferred

DESCRIPTION OF PLAN (continued)

retirement option plan. Each month a large portion of the amount the member would have received in a retirement check is placed into a tax-deferred account and accrues interest at a variable rate. Benefits are reduced 1% for each contributory year of service and 6/10 of 1% for each year of non-contributory service credit. The System's actuary determined that this reduction is necessary to keep the plan cost neutral. The remainder goes into a tax-deferred account where it will accrue interest at a rate ranging from 2% to 6%, determined by the board, compounded annually. The interest rate will be determined by the System's rate of return.

Act 1590 of 1999, allows for participation in the T-DROP after 28 years of credited service. An additional reduction of 6% for each year under 30 will be imposed. A member with 28 years would be reduced an additional 12%, while a member with 29 years would be reduced an additional 6%. A decision to enter the plan is irrevocable. Upon retirement, the members' deferred monthly ATRS check will have grown by 3% for each year the member participated in T-DROP resulting from annual cost of living raises. In addition to the member's ATRS retirement check the member will have accumulated money in a T-DROP account. Members may take a lump sum, rollover the money into another tax-deferred account or ATRS will annuitize the lump sum amount and add it monthly to the member's regular ATRS lifetime check.

The System also provides a lump sum death benefit for ATRS active and retired members who have five or more years of credited service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for non-contributory members. The amount will be prorated according to the relationship between their non-contributory credited service and total credited service for members who have both contributory and non-contributory service. In addition to the benefits noted above, each surviving dependent child will receive a lump sum benefit of \$10,000, regardless of the member's option.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The management of the System is the responsibility of the Board of Trustees (Board). The Board is comprised of 15 members whose term expires at various times. The Executive Director of the System is appointed by the Board and oversees the administrative operation of the System, aided by a Deputy Director and six department managers. Although separate financial statements are presented for the System as a whole, the System is also considered a Pension Trust Fund of the State of Arkansas Financial Reporting entity.

Reciprocal Service Retirement

A member may combine covered service in the ATRS, Public Employees Retirement System, Highway Employees Retirement System, State Police Retirement System, the Arkansas Judicial Retirement System, an alternate retirement plan for a state supported college or university, the Arkansas Department of Higher Education, a vocational-technical school or the Division of Vocational and Technical Education to qualify for an annuity. (Act 611 of 1975, as amended.)

Basis of Accounting

The financial statements are presented on the accrual basis. Employer and member contributions are recognized when due and the employer has made a formal commitment to provide the contributions. These contributions are considered to be fully collectible; therefore, an allowance for uncollectible receivables was not provided for. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Administrative Expenses

Expenses for the administration of the System are budgeted and approved by the General Assembly and are paid from the trust assets.

Investments

Investments are reported at fair value. Cash and cash equivalents, which have a maturity of three months or less when purchased, are reported at cost which approximates fair value.

Investments other than real estate, commercial mortgages and other loans, and municipal revenue bonds are reported at fair market values determined by the custodial agents. The agent's determination of market values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Commercial mortgages and other loans and municipal revenue bonds have been valued on an amortized cost basis which approximates market or fair value. The current values of the interests in limited partnerships are based on historical costs as adjusted by current appraisals. Real estate mortgages are valued on the basis of future principal and interest payments. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. The fair value of real estate investments is determined based on third party appraisers. Short-term investments are reported at cost which approximates fair market value. For investments where no readily ascertainable fair market value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

All security transactions are recorded on a settlement date basis.

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels or currency exchange rates. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are spelled out in manager contracts and are monitored on an ongoing basis; so-called "exotic" derivatives and leverage are never employed. Managers authorized to use derivatives do so to reduce foreign exchange risk and minimize transaction costs. Managers may only use derivatives as part of an overall strategy to enhance returns.

ATRS enters into foreign exchange forward contracts to sell or purchase certain foreign currencies at specified rates at stated dates and to hedge currency risk of investments denominated in foreign currencies such as foreign equity securities, bonds issued by foreign entities and foreign short-term investments and money market funds. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offset in the forward markets. At June 30, 2004, the System had 53 open forward exchange contracts in various foreign currencies at varying rates and dates. At June 30, 2004, the aggregate unrealized gain on such open contracts was \$188,172.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Generally, derivatives are subject both to market risk and to counterparty risk. The derivatives utilized by the System typically have no greater market risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Equipment

Equipment with a cost of \$2,500 or more is capitalized at the original cost and depreciation is recognized in administration expenses. Depreciation is computed based on the life of asset as stipulated by the Arkansas Administrative Statewide Information System and the method used is straight life.

Payables and Liabilities

Payables and liabilities consists of securities related payables and bills received after the year end. These liabilities are recorded on the financial statement. The liability on securities lending transactions are reported on the financial statement for reporting purposes.

Compensated Absences

The agency employees are permitted to accumulate earned but unused vacation and sick pay benefits. Accumulation rate varies according to employee length of service with the State. Upon separation of service, in good standing, employees will be paid for a maximum of thirty unused vacation leave days. Employees do not accumulate sick leave, therefore no liability is reported.

Tax Status

During the fiscal year ended June 30, 2004, the System qualified under Section 501(a) of the Internal Revenue Code and was exempt from federal income taxes.

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of the carrying amounts of cash and investments at June 30, 2004.

As presented in Statement of Plan Net Assets:

Cash and cash equivalents	\$ 37,667,099
Investments	<u>8,086,925,201</u>
Total	<u><u>\$8,124,592,300</u></u>

As presented below:

Deposits	\$ 11,682,313
Investments	<u>8,112,909,987</u>
Total	<u><u>\$8,124,592,300</u></u>

DEPOSITS AND INVESTMENTS (continued)

Listed below is a summary of the deposit and investment portfolio as of June 30, 2004. Investing is governed by the prudent investor rule in accordance with Statutes of the State of Arkansas. All investments of the System are considered to have been made in accordance with these governing statutes.

(a) Deposits

A summary of deposits, including certificates of deposits, at June 30, 2004, is as follows:

Carrying amount	\$ 11,682,313
Bank balance	<u>11,849,595</u>
Amount insured or collateralized (Category I)	<u>11,849,595</u>
Amount uninsured	<u>0</u>

Credit Risk

The following table presents the System's investments as of June 30, 2004, categorized to give an indication of the level of risk assumed by the System. The categories of investment risk are:

1. Insured or registered investments, or securities held by the System or its agent in the System's name.
2. Uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the System's name.
3. Uninsured and unregistered investments, with securities held by the counterparty in the System's name or held by the counterparty's trust department or agent but not in the System's name.

A security, for purposes of classification in the various categories, is a transferable financial instrument that evidences ownership or creditorship. Investments not evidenced by securities are not categorized to credit risk.

Credit Risk (continued)

Category I	ATRS Securities		Net
	Of Record	Loaned	
Domestic Equities	\$ 2,244,846,938	\$ 366,460,023	\$ 1,878,386,915
International Equities	1,338,442,259	181,466,737	1,156,975,522
Commingled Funds (LLC, BFindex, Comm Fd)	1,854,763,841		1,854,763,841
Corporate Bonds	167,522,844	26,025,927	141,496,957
Revenue Bonds	1,005,000	—	1,005,000
Government Securities	190,358,082	126,037,356	64,320,726
Cash Equivalents - STIF	425,032,240	—	425,032,240
Convertible Corporate Bonds	232,737,869	—	232,737,869
Mortgage Back/ABS/CMO	174,604,486	—	174,604,486
FX Contracts	(13,279,613)	—	(13,279,613)
Not Subject to Classification			
Limited Partnerships	1,136,310,881	—	1,136,310,881
Real Estate	131,347,694	—	131,347,694
Mortgage Loans	149,695,207	—	149,695,207
Other Investments	53,537,433	—	53,537,433
Cash	25,984,786	—	25,984,786
	8,112,909,987	699,990,043	7,412,919,944
Investments Held By Broker (Lent Securities collateral)			
Government Securities - cash	—	127,989,924	127,989,924
Domestic equities - securities	—	374,716,476	374,716,476
Domestic equities - Letter of credit	—	2,425,005	2,425,005
Corporate Bonds - cash	—	26,525,020	26,525,020
Corporate Bonds - securities	—	232,219	232,219
International equities - securities	—	2,548,941	2,548,941
International equities - cash	—	190,579,894	190,579,894
	\$ 8,112,909,987	\$ 1,425,007,522	\$ 8,137,937,423

4. SECURITIES LENDING ARRANGEMENTS

The System participates in a securities lending program, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12 (the Code) whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the United States Government or an agency thereof equal to at least 100% of the full market value of the security lent. The program is administered by a custodial agent bank. The Code does not specify certain types of securities that may be lent; accordingly, ATRS has on loan at June 30, 2004, common and preferred stock, government securities, corporate bonds and international securities. State Street Bank and Trust Company (State Street) does not have the ability to pledge or sell collateral securities delivered absent a borrower default. There are no restrictions on the amount of securities that can be lent at one time. In the total amount of \$704,997,658, ATRS has minimized its exposure to credit risk due to borrower default by having the custodial banks determine daily that the required collateral meets at least 100% of the market value of securities on loan. A net earning of \$2.7 million was earned on securities lending activities as shown on the Statement of Changes in Plan Net Assets. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There were no violations of the security lending provisions that occurred during the year ended June 30, 2004.

4. SECURITIES LENDING ARRANGEMENTS (continued)

ATRS invested the cash collateral in short-term securities, short term investment funds maintained by State Street, and many market mutual funds. ATRS authorizes State Street to purchase or sell investments of cash collateral to or from other accounts held by State Street or its affiliates. Investments purchased with cash collateral are held by State Street in separate collateral accounts. The contract with State Street requires it to indemnify ATRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent). The risks involved in a security lending program generally include borrower bankruptcy, collateral deficiencies, problems with settlements, corporate actions, and dividends and interest. ATRS had no losses on securities lending transactions resulting from the default of a borrower or the lending agents for the year ended June 30, 2004.

Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the lent securities. The collateral held and the market value of securities on loan for ATRS as of June 30, 2004, were \$725,017,480 and \$704,997,658, respectively.

The carrying amounts and fair value of securities lending collateral by type of investment due is as follows:

	Cash Collateral	Securities Collateral
U.S. Government and Agency	\$127,989,924	\$ —
U.S. Corporate	401,241,496	232,219
International Equity	190,579,894	2,548,941
Total Values	<u>\$719,811,314</u>	<u>\$ 2,781,160</u>

5. RELATED PARTY TRANSACTIONS

As of June 30, 2004, the System loaned \$16,666,945 to the State of Arkansas Department of Education for purposes of acquiring a computer network. During the fiscal year ended June 30, 2004, ATRS paid the Department of Information Services approximately \$863,760 for data processing services.

6. LEGALLY REQUIRED RESERVES

Arkansas Code Annotated 24-7-405 requires that the net assets held in trust for pension benefits be recorded in five accounts, namely, the members' deposit account, the employer's accumulation account, the retirement reserve account, the survivor benefit account and the income-expense account. At June 30, 2004, the balances of each of these accounts are as follows:

Members' deposit account	\$ 5,177,063,200
Employers' accumulation account	(967,004,993)
Retirement reserve account	3,833,336,631
Survivor benefit account	56,790,026
Income-expense account	21,819,171
Net assets held in trust for pension benefits	<u>\$ 8,122,004,035</u>

7. COMMITMENTS AND CONTINGENCIES

At June 30, 2004, the System was committed to purchase investments at an aggregate cost of approximately \$1,050.9 million.

Required Supplementary Information

Schedule I - Schedule of Funding Progress (Dollar Amounts in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets(a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (AAL) (b-a)	Funding Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1995*	3,626	4,257	631	85.2%	1,234	51.1%
1996	4,186	4,635	449	90.3%	1,260	35.6%
1997+*	4,956	5,403	447	91.7%	1,302	34.3%
1998+*	5,815	6,188	373	94.0%	1,368	27.3%
1999+	6,740	6,834	94	98.6%	1,429	6.6%
2000	7,620	7,580	(40)	100.5%	1,485	-
2000+	7,620	7,879	259	96.7%	1,485	17.4%
2001	8,166	8,469	303	96.4%	1,557	19.5%
2001+	8,166	8,561	395	95.4%	1,557	25.4%
2002	8,328	9,170	842	90.8%	1,628	51.7%
2002*	8,328	9,062	734	91.9%	1,628	45.1%
2003	8,263	9,672	1,409	85.4%	1,683	83.7%
2003*	8,113	9,445	1,332	85.9%	1,683	79.1%
2004	8,424	10,050	1,626	83.8%	1,863	87.3%

+ Legislated benefit increase.

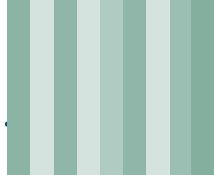
* Revised actuarial assumptions.

Required Supplementary Information (continued)

Schedule 2 - Schedule of Employer Contributions

(\$ Millions)

Year Ended June 30	(A) Covered Payroll BOY	(B)=(A)×12% Annual Required Contribution	(C) Actual Contributions	(C)/(B) Percent Contributed
1995	\$1,167	\$140.04	\$139.80	99.4%
1996	1,234	148.08	132.60	89.5%
1997	1,260	151.20	153.50	101.5%
1998	1,302	156.24	159.00	101.8%
1999	1,368	164.16	166.80	101.6%
2000	1,429	171.48	175.70	102.5%
2001	1,485	178.20	181.10	101.6%
2002	1,557	186.84	191.35	102.4%
2003	1,628	195.36	200.46	102.6%
2004	1,677	218.04	224.18	102.4%



Required Supplementary Information (continued)

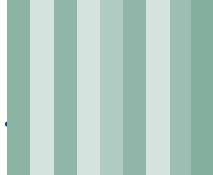
The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Schedule 3 - Notes to Trend Data

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of payroll
Remaining Amortization Period	31 years
Asset Valuation Method	4-year smoothed market 80%/120% Corridor
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Cost-of-living adjustments	3.0% Simple
Projected Salary Increases*	4.0% to 10.1%
*Includes inflation at	4.0%

SUPPORTING SCHEDULES

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2004



Schedule 4 - Schedule of Administrative Expenses

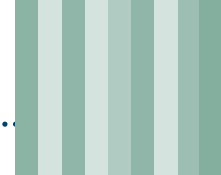
Fiscal Year ended June 30, 2004

Personnel Services:	
Staff Salaries	\$ 2,155,693
Employee Benefits	<u>671,165</u>
Total Personnel Services	2,826,858
Professional Services:	
Actuary	\$ 144,000
Data Processing	3,744,048
Other Professional Services and Fees	<u>113,119</u>
Total Professional Services	4,001,167
Miscellaneous:	
Equipment	\$ 19,025
Other Operating Expenses	<u>1,350,415</u>
Total Miscellaneous	<u>1,369,440</u>
Total Administrative Expenses	<u><u>\$ 8,197,465</u></u>

Schedule 5 - Schedule of Investment Expenses

Fiscal Year Ended June 30, 2004

Investment Counsel	\$ 1,103,263
Professional Services:	
International	5,016,742
Alternative Investment	18,820,002
Domestic Equity	11,444,914
Custodian Fee	753,685
Real Estate Expense	4,191,593
Security Lending	<u>5,907,349</u>
Total Professional Services	<u>46,134,285</u>
Total Investment Expense	<u><u>\$ 47,237,548</u></u>



Schedule 6 - Schedule of Payments To Consultants

Fiscal Year Ended June 30, 2004

Individual or Firm Professional Services:	Commission/Fee
Data Processing	
Department of Information Services	\$ 863,760
Optdata	2,472,538
Mystery Properties	215,110
Other supplies/services	192,640
	<u>3,744,048</u>
Actuary	
Gabriel, Roeder, Smith & Company	144,000
	<u>144,000</u>
Other Professional Services and Fees	
Rose Law Firm	56,103
Austin Porter, Atty	24,101
Johanson Group	16,500
Voice Retrieval	6,643
Other	9,772
	<u>113,118</u>
Total	<u><u>\$4,001,167</u></u>

INVESTMENTS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2004

ENNISKNUPP

December 2, 2004
Board of Trustees
Arkansas Teacher Retirement System
1400 West Third Avenue
Little Rock, AR 72201

Market Overview

Near the conclusion of the fiscal year ending June 30, 2004, a difficult environment prevailed, as oil prices, rising interest rates, and geopolitical instability dampened capital market returns across the board. However, stronger results earlier in the fiscal year pushed the Dow Jones Wilshire 5000 Index up to a 21% gain and the non-U.S. markets to a 32% return for the fiscal year. Results were more tempered in the bond market, as the Lehman Aggregate Bond Index experienced negative returns in two out of the four quarters during the fiscal year.

In the U.S. equity market, continued strength of corporate earnings outweighed fears of inflation and the expectations of future interest rate increases. Strong gains by the energy sector (33%), materials (33%), and consumer durables (39%), led the market higher. The weakest performing segments, consumer non-durables (12%) and utilities (10%), posted double digit results. On a capitalization basis, small cap stocks dominated. Small-cap value stocks (35%) had an edge over small growth (32%). Large cap stocks lagged, but still advanced significantly, with large value up 17% and large growth up 16%.

The non-U.S. equity market closed the fiscal year with a volatile quarter, as mainland Europe (2.5%) and the United Kingdom (1.5%) were the only international regions to post a gain during the last fiscal quarter. Despite the rocky final quarter, the fiscal year results were strong, with the MSCI All Country World Ex-U.S. Index advancing 32%. Japan was the highlight for the fiscal year, up 46%. Emerging markets, while volatile, posted impressive gains (33%) while Canada, the United Kingdom and the Pacific region (ex-Japan) were slightly more subdued with returns in the mid-twenties.

The fixed income market endured the worst fiscal year performance since 1994 with a broad market return of 0.3%. Rising inflationary pressure and expectations of future interest rate increases in 2004 pushed government bonds lower, particularly long-term Treasuries. Additionally, the expectation of short-term interest rate increases compelled the unwinding of carry trade positions, which hampered the performance of corporate bonds (0.1%). A carry trade involves borrowing cash at short-term rates and then purchasing longer-term instruments with higher yields. Mortgage securities (2.2%) generated slightly better returns, as generally low interest rates prompted refinancings. High yield bonds mirrored gains in the equity market, and advanced over 10%. On June 29th, the Federal Reserve initiated the first rate increase since May 2000, raising the Federal funds rate by 25 basis points to 1.25%.

Overview of Fund Structure

The ATRS portfolio is diversified across several asset classes including U.S. equity, non-U.S. equity, fixed income and alternative investments. Within these asset classes, the investments are further diversified amongst different investment types and styles. A variety of investment firms are also employed within each category to minimize manager- and firm-specific risk. We believe the diversification level and general risk level of the fund structure to be appropriate for a fund of this type.

During the fiscal year 2004, some minor changes were made in manager structure. A new large cap growth manager was added to the U.S. equity portfolio to help balance the current value bias of the manager structure. Two new international equity managers were also hired to replace existing managers in the investment program. Within the bond portion of the ATRS investment program, a broad low-cost Index fund was added to better diversify the program and reduce trading and management costs. Three active bond managers were terminated and replaced with two new active managers during the fiscal year.

ATRS Performance Overview

The fiscal year of 2004 saw strong performance for the ATRS portfolio as the Total Fund advanced 17.7%. This double digit gain represented value added over the performance benchmark and the Russell/Mellon Public Fund Universe. The Russell/Mellon Public Fund Universe represented 60 funds with an aggregate market value of \$541 billion. Returns over the longer-term three- and five-year periods were favorable on a relative basis as the ATRS portfolio outperformed the performance benchmark by 0.7 and 1.1 percentage points, respectively. Additionally, the portfolio ranked near median in a universe of its public fund peers. Over the long run, ATRS has exceeded the actuarial return assumption 8.0% annually, as the total portfolio has earned an average 9.0% return since early 1986.

Sincerely,



Stephen Cummings, CFA
Principal

STC:smw

Investment Policies and Procedures

STATEMENT OF INVESTMENT POLICY

This Investment Policy has been prepared within the context of applicable Arkansas laws and is intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that both prudence and care are maintained in the execution of the investment program. While safety of principal is given primary consideration, the Board may take appropriate levels of risk to earn higher levels of investment return.

The Board has arrived at this policy through careful study of the rates of return and risks associated with various investment strategies in relation to the current and projected liabilities of the Retirement System. This policy has been chosen as the most appropriate for achieving the financial objectives of the Retirement System.

The Board has adopted a long-term investment horizon so that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of the Retirement System will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. All transactions undertaken on behalf of the Retirement System will be in the sole interest of the members of the Retirement System.

The Retirement System shall manage those assets not specifically allocated to investment managers. Notwithstanding the provisions of this Investment Policy, the Board may direct a specific investment activity and shall be fully responsible for any such action.

To achieve the overall goal of the Retirement System as it pertains to investments, one or more investment consultants may be retained by the Board. The scope of duties, together with the terms and conditions of engagement, of any investment consultant will be set forth in a contract approved by the Board.

Standard of Care

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting monies in the fund and in acquiring, retaining, managing and disposing of investments of the fund there shall be exercised the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting trust assets and in acquiring, retaining, managing and disposing of investments of the trust assets, there shall be exercised the reasonable care, skill, and caution that a prudent investor would use after considering the purposes, terms, distribution requirements, and other circumstances of the trust. Investment and management decisions respecting individual assets shall be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust. The investments of the trust shall be diversified unless the trustees reasonably determine that, because of special circumstances, the purposes of the trust are better served without diversifying. The trust assets shall be invested and managed solely in the interest of the members and benefit recipients of the trust.

Investment and management functions may be delegated to an agent that a prudent trustee of comparable skills could properly delegate under the circumstances. When making such delegation, Trustees shall establish the scope and terms of the delegation, consistent with the purposes and terms of the trust, and shall monitor the agent's performance and compliance with the terms of the delegation. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

INVESTMENT POLICIES AND PROCEDURES (continued)

The standard of care set forth herein shall be applied by each party serving in a fiduciary capacity for the trust.

Asset Allocation

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will-over time-provide the appropriate risk-adjusted return to the Retirement System.

It shall be the goal of the System to maintain the following asset allocation ranges: Asset Category

	Minimum	Target	Maximum
Domestic Equity	35.0%	40.0%	45.0%
International Equity	15.0%	17.5%	20.0%
Domestic Fixed Income	20.0%	25.0%	30.0%
Alternatives	4.0%	6.0%	8.0%
Real Estate	3.0%	5.0%	7.0%
Timberland	0.0%	1.5%	3.0%
Arkansas Related	3.0%	5.0%	7.0%
Cash Equivalents	0.0%	0.0%	3.0%

Rebalancing

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will – over time – provide the appropriate risk-adjusted return to the Retirement System. The Executive Director is responsible to rebalance among the allowable asset classes and the individual portfolios at such time that any of the asset classes falls outside of the designated range. The Executive Director will monitor the asset values by classification and for each asset manager on a monthly basis, based on month-end data provided by the custodial bank, and report to the Board any movement of funds necessary to carry out any rebalancing.

Goals

The overall goal is to achieve, over a period of years, the greatest rate of return for the Retirement System with due consideration being given to preserving capital and its purchasing power and to maintaining an element of risk at a prudent investor level.

The System's actuary sets an expected return based on the Board's policy decisions. Market cycles may result in the Retirement System earning a return materially above or below the actuarial rate of return for extended periods of time. Therefore, the actuarial rate of return will not be used for performance comparison purposes.

Domestic Equity

The manager structure of the domestic equity portfolio's risk and style exposure should resemble the aggregate domestic equity market as measured by the Wilshire 5000 Index. To help achieve this goal, the Board will employ managers utilizing various or multiple capitalization (small, mid and large) and investment styles (growth and value) so that the overall size and capitalization structure of the total component will approximate that of the broad market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the domestic equity assets to a passive investment portfolio that approximates the return of the broad domestic equity market.

INVESTMENT POLICIES AND PROCEDURES (continued)

Domestic Equity Active/Passive Allocation (as a percent of the domestic equity portfolio)

	Minimum	Target	Maximum
Active Component	50%	70%	90%
Passive Component	10%	30%	50%

The goal for domestic equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic equity market as measured by the Wilshire 5000 Index over a full market cycle (approximately five years).

International Equity

The manager structure of the aggregate international equity portfolio's risk and style exposure should resemble the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-US. Index. To help achieve this goal, the Board will employ managers that invest in a broad array of countries (both developed and emerging markets), capitalization (small, mid and large) and style (growth and value) so that the overall style and capitalization structure of the total component will approximate that of the broad international market. An active management strategy for international equity investments will be used.

The goal for international equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-U.S. Index over a full market cycle (approximately five years).

Fixed Income

The manager structure of the aggregate fixed income portfolio's risk exposure should resemble the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index. To help achieve this goal, the Board will employ managers that invest assets in a broad array of sectors (Government, mortgage backed, credits, asset backed and commercial mortgage backed bonds), maturities, and credit qualities so that the overall portfolio structure is not materially different from that of the domestic fixed income market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the fixed income assets to a passive investment portfolio that approximates the return of the broad fixed income market.

Fixed Income Active/Passive Allocation (as a percent of the fixed income portfolio)

	Minimum	Target	Maximum
Active Component	50%	70%	90%
Passive Component	10%	30%	50%

The goal for fixed income investments shall be to achieve a total rate of return that will exceed, net of all costs and fees, the return of the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index over a full market cycle (approximately five years).

Alternative Investments

The structure of alternative investments should include domestic and foreign private equity partnerships, venture capital and mezzanine financing partnerships to diversify the assets and reduce the likeliness of material losses in any individual investment classification.

INVESTMENT POLICIES AND PROCEDURES (continued)

The goal for alternative investments is to achieve a total rate of return that will exceed, net of all costs and fees, the return of the public equity markets, as measured by the Wilshire 5000 Index, plus a liquidity premium of 2.0% per year.

Real Estate

The system may initiate direct ownership in raw land, commercial, industrial, and residential properties or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

Total real estate investments shall not exceed the system's approved asset allocation as determined by the Board at the beginning of each fiscal year. Should the real estate allocation be exceeded, no additional real estate investments shall be entered into until the asset allocation exceeds the total real estate investments.

The goal of the real estate investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic real estate market as measured by the NCREIF National Property Index over a full market cycle (approximately five years).

Timberland

The system may initiate direct ownership in timberland or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

The goal of the timberland investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Southeast Timberland NCREIF index over a full market cycle (approximately five years).

Arkansas-Related Investments

The System may initiate Arkansas related mortgage loans, direct real estate investments, or purchase insured certificates of deposit or short term securities of Arkansas financial institutions to meet the goals of the mandated requirements.

The goal of Arkansas-related investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Lehman Mortgage Index as measured over a full market cycle (approximately five years).

Cash Equivalents

The system may hold direct ownership in short-term investments or may permit or require managers to hold cash or cash equivalents to meet liquidity needs of the manager or of the System.

The goal of the cash management shall be to preserve capital and maintain liquidity.

Commingled or Mutual Funds

If a commingled fund or mutual fund is utilized, it is understood that the portfolio will be governed by the prospectus or similar document for the fund. In those cases, the System will utilize the A TRS Investment Guidelines in selecting and evaluating funds initially and in monitoring them on an on-going basis for continued suitability. If the assets of the commingled or mutual fund participate in securities lending, the cash collateral should be prudently invested to avoid risk of loss.

Derivatives

Derivatives may be used to reduce the risk in a portfolio. At no time shall derivatives be used to create a position of leverage or substantially increase the risk of the overall portfolio. Each investment manager's derivative usage shall be specified in the investment management agreement or specific guidelines.

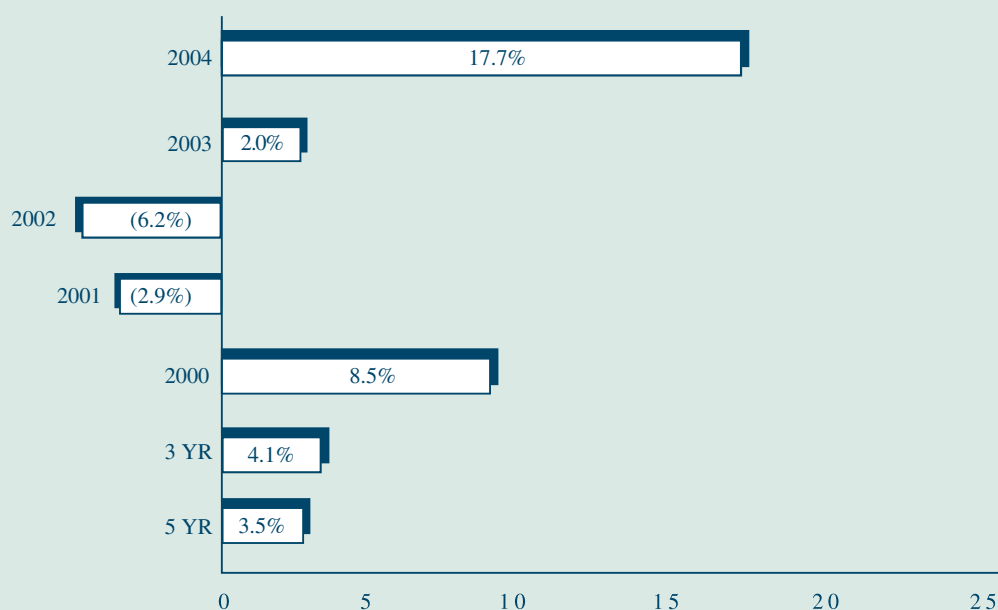
INVESTMENT POLICIES AND PROCEDURES (continued)

The use of futures and options shall be matched by cash or cash equivalent securities, and all short futures positions shall be matched by equivalent long security positions. Option premiums outstanding at any given time shall be limited to less than 5% of the market value of the total portfolio. The notional value of the underlying securities of the futures contracts shall not exceed 15% of the market value of the total portfolio.

Loaning of Securities

To increase investment income with minimal risk, the Board may loan bonds, stocks, or other securities provided at least 102% of the full market value of the security loaned is collateralized by cash or securities at the time the loan is executed.

At all times during the term of each loan, the collateral shall be equal to not less than 100% of the full market value calculated on the total value of all securities on loan.



Asset Allocation Analysis

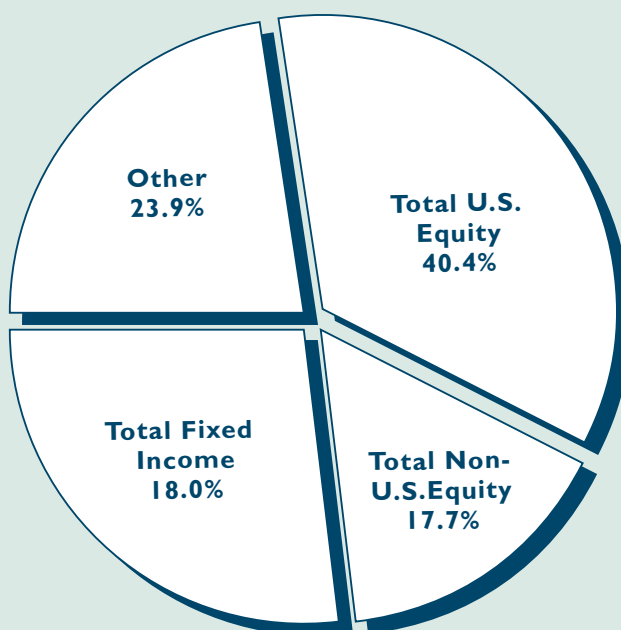
As of June 30, 2004

Asset Class	Market Value (\$ in thousands)	Current %
Total U.S. Equity	\$3,293,357	40.4%
Total Non-U.S. Equity	1,440,743	17.7%
Total Fixed Income	1,465,145	18.0%
Total Mezzanine	51,550	0.6%
Total Domestic Private Equity	359,504	4.4%
Total Foreign Private Equity	115,298	1.4%
Total Real Estate	602,624	7.4%
Arkansas Related	413,380	5.1%
Total Cash	412,590	5.0%
	\$8,154,191	100.0%

Total U.S. Equity	40.4%
Total Non-U.S. Equity	17.7%
Total Fixed Income	18.0%
Other	23.9%

Current Allocation by Asset Class

As of June 30, 2004



Schedule of Investment Results

Returns for Period Ended June 30, 2004

The table below details the rates of return for the System's investment managers over various time periods ended June 30, 2004.

	1 Year	3 Years	5 Years
Total Fund	17.7%	4.1%	3.5%
Performance Bench Mark	16.0%	3.4%	2.4%
LARGE CAP GROWTH EQUITY			
Alliance Capital	17.5%	(6.6%)	(8.2%)
S&P 500 Index	19.1%	(0.7%)	(2.2%)
LARGE CAP VALUE EQUITY			
Oppenheimer	23.5%	(2.0%)	0.4%
Russell 1000 Value Index	21.1%	3.0%	1.9%
ICC Capital	31.8%	2.0%	4.1%
Russell 1000 Index	19.5%	(0.3%)	(1.7%)
MID CAP VALUE EQUITY			
Eubel Brady & Suttman	20.9%	14.5%	—
Russell Mid Cap Value	30.8%	9.8%	—
SMALL CAP VALUE EQUITY			
Kennedy Capital Management	43.6%	17.2%	22.0%
Daruma Asset Management	33.7%	5.7%	—
Russell 2000 Value Index	35.2%	12.2%	12.8%
SMALL CAP DOMESTIC EQUITY			
ING Investment Management	27.6%	1.5%	4.1%
The TCW Group	29.1%	(13.3%)	(8.8%)
Russell 2000 Growth	31.6%	(0.2%)	(0.5%)
SSgA Wilshire 5000 Fund	21.3%	—	—
DJ Wilshire 5000	21.2%	—	—
CONVERTIBLES			
Nicholas Applegate	19.0%	4.5%	6.9%
Performance Benchmark ¹	14.4%	5.6%	6.4%
INTERNATIONAL EQUITY MANAGERS			
Capital Guardian	—	—	—
MSCI EAFE Index	—	—	—
UBS Global Asset Management	26.0%	5.3%	2.7%
Performance Benchmark ²	30.7%	3.8%	0.2%
Wellington	—	—	—
MSCI All Country World Ex-U.S. Index	—	—	—

¹ Nicholas Applegate Performance Benchmark is the CSFB Convertible Securities Index as of May 1, 2004. Prior to this, the benchmark comprised 90% CSFB Convertible Securities Index and 10% Salomon High Yield index.

² UBS Performance Benchmark - As of March 1, 2004 the benchmark was changed to the MSCI All-country ex-U.S. Index. Until March 1, 2004 the benchmark was the MSCI World ex-U.S. Index.

Schedule of Investment Results (continued)

Returns for Period Ended June 30, 2004

The table below details the rates of return for the System's investment managers over various time periods ended June 30, 2004.

	1 Year	3 Years	5 Years
FIXED INCOME MANAGERS			
Western Asset Management	1.1%	—	—
Performance Benchmark ³	0.4%	—	—
SSgA Bond Market Index	—	—	—
BlackRock	—	—	—
PIMCO	—	—	—
Total Fixed Income	1.0%	5.4%	5.9%
Performance Benchmark ⁴	0.4%	6.4%	7.0%
ALTERNATIVE INVESTMENTS			
Arkansas Related	3.8%	6.1%	3.8%
Real Estate			
Real Estate Partnerships	16.8%	3.9%	11.2%
Total Real Estate	16.8%	3.9%	11.2%
Private Equity			
Domestic Private Equity	22.1%	2.0%	3.2%
International Private Equity	19.3%	16.5%	8.8%
Total Private Equity	23.2%	5.4%	5.0%
Total Alternative Investments	20.6%	3.2%	5.3%
INDIVIDUAL PARTNERSHIPS			
	Inception Date	Annualized Internal Rate of Return	
Mezzanine			
Blackstone Mezzanine	11/30/1999	(4.6%)	
DLJ Mezzanine	10/31/1999	7.5%	
Domestic Private Equity			
Hicks Muse Tate & Furst Fund III	2/28/1997	0.5%	
Hicks Muse Tate & Furst Fund IV	7/31/1998	(9.0%)	
Hicks Muse Tate & Furst Fund V	11/31/2000	6.9%	
Oakhill Capital Partners	3/31/1999	(3.3%)	
Cypress	5/31/1999	0.8%	
Diamond State Ventures	3/31/2000	10.6%	
LJM2 Co-Investment	4/30/2000	—	
DLJ Merchant III	8/31/2000	(0.0%)	
Hicks Muse Tate & First-Century Fund	4/30/2000	(0.6%)	
Foreign Private Equity			
Doughty-Hanson-Fund III	10/31/1997	1.0%	
Doughty-Hanson-Tech I	10/31/2000	(37.7%)	
Civen Funds	7/31/1998	1.0%	
Real Estate			
Doughty-Hanson-Euro Real Estate	6/30/1999	14.3%	
DLJ Real Estate Capital II	8/31/1999	(0.2%)	
Westbrook Fund II	4/30/1997	15.1%	
Westbrook Fund III	8/31/1998	8.8%	
Westbrook Fund IV	4/30/2001	5.7%	
Westbrook SHP	10/31/1999	11.8%	
Olympus	7/31/2000	1.3%	
Wachovia Timberland	1/31/1998	7.4%	
Wachovia Timberland II	10/31/1999	7.8%	

^{3,4} Western Asset Performance Benchmark and Fixed Income Performance Benchmark - As of March 1, 2004 the benchmark was the Lehman Brothers Universal Bond Index. Prior to March 1, 2004 it consisted of the Lehman Brothers Aggregate Bond Index.

Note: All returns are shown net of all fees.

Ten Largest Holdings

(By Market Value)
As of June 30, 2004

Fixed Income

Par	Security Name	Market Value
34,410,620	Western Asset Core	\$ 356,872,543
27,775,217	PIMCO FDS PAC INVT MGMT SER	225,618,853
12,809,299	Bond Market Index SL	218,488,209
6,471,445	PIMCO FDS PAC INVT MGMT SER MTG Portfolio	67,885,455
5,520,511	PIMCO FDS PAC INVT MGMT SER Short Term Portfolio	54,266,626
37,500,000	Federal Home LN BK Cons Disc Note .01% due July 1, 2004	37,499,865
2,100,688	Western Asset Opport Non Dollar	37,417,451
2,696,074	LM INSTL FD Advisors I Inc Western Asset High Yield	27,472,994
27,100,000	FNMA TBA Jul 30 Single Family 5.5% due Dec 1, 2099	26,960,267
25,720,000	United States Treasury Notes 4.75% due May 15, 2014	25,993,275
		<u>\$1,078,475,538</u>

(A complete listing of portfolio holdings is available upon request.)

Ten Largest Holdings (continued)

(By Market Value)
As of June 30, 2004

Domestic Equities

Shares	Security Name	Market Value
41,122,070	US Total Market Index	\$ 702,899,549
3,297,900	AMR Corp	39,937,569
787,400	International Paper Co	35,196,780
450,700	Conocophillips	34,383,903
603,000	Citigroup Inc	28,039,500
778,850	Dell Inc	27,898,407
935,150	Intel Co	25,810,140
472,800	Boeing Co	24,155,352
1,486,152	Ford Motor Co	23,258,279
654,920	Pfizer Inc	22,450,658
		<u>\$ 964,030,137</u>

(A complete listing of portfolio holdings is available upon request.)

Ten Largest Holdings (continued)

(By Market Value)

As of June 30, 2004

International Equities

Shares	Security Name	Market Value
15,808,906	Vodafone Group	\$ 34,618,356
1,016,008	Royal Bank Scotland Grp	29,259,380
80,897	Nestle SA	21,574,256
1,262,706	HSBC Holdings	18,777,319
2,067,089	Barclays	17,609,355
353,600	Honda Motor Co	17,045,649
1,906,074	BP Plc	16,833,957
3,245,434	Tesco	15,670,393
144,400	Muenchener Ruckvers Ag	15,653,469
644,000	KAO	15,522,339
		<u>\$ 202,564,473</u>

(A complete listing of portfolio holdings is available upon request.)

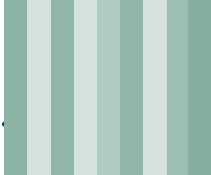
Ten Largest Holdings (continued)

(By Market Value)
As of June 30, 2004

Arkansas Related Investments

Security Name	Market Value
Dillard's Building	\$ 50,000,000
Victory Building	43,307,679
Lindsey Partnerships	42,946,343
Donaghey Foundation	41,389,039
The Peabody Hotel	27,142,235
American Center	17,409,827
Arkansas Department of Education	16,666,945
Crescent Center/Forum I-Memphis, TN	15,000,736
Southcenter Shopping Center	12,900,375
Retirement Village	9,912,302
	<u>\$276,675,481</u>

(A complete listing of portfolio holdings is available upon request.)



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ACTUARIALS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2004



Actuary's Certification Letter

GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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

December 23, 2004

Board of Trustees
Arkansas Teacher Retirement System
1400 West Third
Little Rock, Arkansas 72201

Dear Board Members:

The basic funding objective of the Arkansas Teacher Retirement System (ATRS) is to establish and receive contributions which:

- When expressed in terms of the percentage of active member payroll will remain approximately level from generation to generation, and
- When combined with present assets and future investment return will be sufficient to meet the financial obligations of ATRS to present and future retirees and beneficiaries.

The progress being made toward the realization of the financing objectives of the System through June 30, 2004, is illustrated in the attached Exhibits 1 and 2. The funding objective is currently being realized. The valuation process develops contribution rates that are sufficient to fund the plan's current 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. The actuarial valuations are performed each year and the most recent valuations were completed based upon census data, asset data, and plan provisions as of June 30, 2004.

The System's administrative staff provides the actuary with data for the actuarial valuations. The actuary relies on the census 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. Asset information was accepted without further audit.

The figures disclosed in the Supplementary Schedules to the Financial Section were provided by Gabriel, Roeder, Smith & Company, as were the Notes to Trend Data. In addition, Gabriel, Roeder, Smith & Company was responsible for the following schedules found in the Actuarial Section:

Computed Actuarial Liabilities
Employer Contribution Rate Computed as of June 30, 2004
Active Members in Valuation Data
Retirees and Beneficiaries Added to and Removed From Rolls

Board of Trustees
December 23, 2004
Page 2

Solvency Test
Summary of Actuarial Assumptions and Methods
Single Life Retirement Values
Probabilities of Retirement for Members
Probabilities of T-DROP for Members
Teachers Separations and Individual Pay Increases
Non-Teachers Separations and Individual Pay Increases
Analysis of Financial Experience
Comments and Conclusion

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.

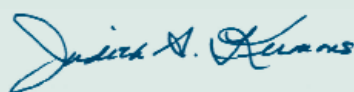
Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and 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, 2004 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1997-2002 period.

ATRS is 84% funded as of June 30, 2004, indicating a solid financial position and significant progress in recovering from the disappointing 2000 – 2002 investment markets. In response to those markets, the Board increased the employer contribution rate to 14% of payroll for the period beginning July 1, 2004, and other adjustments were made including certain benefit changes.

Based upon the results of the June 30, 2004 valuations, we are pleased to report to the Board of Trustees that the Arkansas Teacher Retirement System is meeting its basic financial objective and is in sound condition in accordance with actuarial principles of level percent of payroll financing. Continuation of the recovery in the investment markets is important for ATRS as well as for virtually every retirement system in the country.

Respectfully Submitted,

GABRIEL, ROEDER, SMITH & COMPANY



Judith A. Kermans, E.A., M.A.A.A.



Brian B. Murphy, F.S.A., M.A.A.A.

Exhibit I Computed Actuarial Liabilities

As of June 30, 2004

	(1) Total Present Value	Entry Age Actuarial Cost Method (2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1)-(2)
Actuarial Present Value of Age and service retirement and T-DROP allowances based on Total service likely to be rendered by present active and T-DROP members	\$7,032,876,656	\$1,437,749,960	\$5,595,126,696
Vested Deferred Benefits likely to be paid present active and inactive members	626,287,082	240,838,929	385,448,153
Survivor benefits expected to be paid on behalf of present active members	75,594,464	33,819,497	41,774,967
Disability Benefits expected to be paid on behalf of present active members	181,760,994	93,873,404	87,887,590
Refunds of Member contributions expected to be paid on behalf of Present active members	11,212,804	56,457,568	(45,244,764)
Benefits payable to present retirees and beneficiaries	3,916,810,077	0	3,916,810,077
Lump Sum Death benefits payable to present retirees and beneficiaries	67,923,506	0	67,923,506
Total	\$11,912,465,583	\$1,862,739,358	\$10,049,726,225
Applicable Assets	8,423,579,265	0	8,423,579,265
Liabilities to be Covered by Future Contributions	\$ 3,488,886,318	\$ 1,862,739,358	\$ 1,626,146,960

Exhibit 2 Employer Contribution Rate

Computed as of June 30, 2004

Computed Contributions for	Percents of Active Member Full Payroll			Prior Year
	Teachers	Support	Combined	
Normal Cost				
Age & Service Annuities	10.47%	8.96%	10.05%	10.07%
Deferred Annuities	1.48%	1.98%	1.62%	1.62%
Survivor Benefits	0.24%	0.24%	0.24%	0.24%
Disability Benefits	0.66%	0.58%	0.64%	0.64%
Refunds of Member Contributions	0.33%	0.57%	0.40%	0.39%
Total	13.18%	12.33%	12.95%	12.96%
Average Member Contributions	4.30%	2.93%	3.93%	3.90%
Net Employer Normal Cost	8.88%	9.40%	9.02%	9.06%
Unfunded Actuarial Accrued Liabilities			4.98%	3.94%
Employer Contribution Rate			14.00%	13.00%
Amortization Years			31.0	36.0

The length of an amortization period is a matter of judgment, not a matter of solving an algebraic equation. No one amortization period is "correct" --- there is a range of reasonable judgment. In its pursuit of level-percent contributions, the Teacher Retirement System has used a variety of amortization periods from time to time, extending to 40 years on occasions. This year's result reflects changes in benefits and a contribution rate increase enacted to decrease the amortization period. Experience was poor this year for ATRS, as it was for most plans in the country. As additional unrealized investment losses flow into the valuation over the next several years, the amortization period is likely to increase.

Schedule of Active Member Valuation Data

Valuation Date June 30	Active Members in Valuation		Average Annual Pay	
	Number	Annual Payroll	Amount	% Change
2004	63,185	\$1,748	\$27,660	2.6%
2003	62,432	1,683	26,963	6.3%
2002	62,011	1,628	26,254	3.5%
2001	61,389	1,557	25,365	2.7%
2000	60,147	1,485	24,696	2.8%
2000	60,147	1,485	24,696	2.8%
1999	59,499	1,429	24,019	2.7%
1998	58,528	1,368	23,380	2.3%
1997	56,997	1,302	22,847	1.7%
1996	56,100	1,260	22,463	7.2%

Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

Year	Estimated Number		Total Retirees	Annual Allowances (Millions)	% Increase in Annual Allowances	Average Annual Allowances
	Added	Removed				
2004	1,692	535	21,428	\$386.23	7.3%	\$18,025
2003	1,621	548	20,272	360	7.7%	17,759
2002	1,989	568	19,199	334.15	8.1%	17,404
2001	1,571	450	17,778	309.03	10.3%	17,383
2000	1,249	479	16,657	280.14	12.6%	16,818
1999	1,582	497	15,887	248.75	12.9%	15,658
1998	809	240	14,802	220.38	13.1%	14,888
1997	1,049	475	14,233	194.90	14.3%	13,694
1996	1,107	654	13,659	170.59	8.9%	12,489

Total Retirees does not include any members who are currently participating in T-Drop.

Solvency Test

The ATRS 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 **solvency test** is one means of checking a system's progress under its funding program. In a solvency test, the plan's present assets (cash and investments) are compared with: 1) Member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is unusual.

The schedule below illustrates the history of liability 3 of the System and is indicative of the ATRS objective of following the discipline of level percent of payroll financing.

Val. Date June 30	(1) Member Contrib.	(2) Retirees and Benef.	(3) Active and Inactive Members (Employer Financed Portion)	Present Valuation Assets	(1)	Portion of Present Values Covered by Present Assets		Total
						(2)	(3)	
\$ Millions								
1991#*	\$344	\$ 985	\$1,433	\$2,434	100%	100%	77%	88%
1992#	367	1,077	1,885	2,729	100%	100%	68%	82%
1993#	388	1,207	2,117	3,051	100%	100%	69%	82%
1994	403	1,334	2,223	3,307	100%	100%	71%	84%
1995*	415	1,488	2,354	3,626	100%	100%	73%	85%
1996	424	1,634	2,577	4,186	100%	100%	83%	90%
1997#	426	1,918	3,059	4,956	100%	100%	85%	92%
1998#	435	2,173	3,553	5,815	100%	100%	90%	94%
1999#	447	2,566	3,821	6,740	100%	100%	98%	99%
2000	454	2,804	4,322	7,620	100%	100%	101%	101%
2000#	454	2,888	4,537	7,620	100%	100%	94%	97%
2001#	470	3,200	4,891	8,166	100%	100%	92%	95%
2002*	490	3,464	5,216	8,328	100%	100%	84%	91%
2003#	521	3,706	5,218	8,113	100%	100%	74%	86%
2004#	547	3,985	5,518	8,424	100%	100%	71%	84%

* Revised actuarial assumptions or methods.

Legislated benefit or contribution rate change.

Summary of Actuarial Assumptions and Methods

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age
Amortized Method	Level percent of payroll
Remaining Amortization Period	31 years
Asset Valuation Method	4-year smoothed market 80%/120% corridor
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increase	4.0% to 10.10%
Cost-of-living Adjustments	3% Simple
Includes wage inflation at	4%

An actuarial valuation is based upon an actuarial cost method, an asset valuation method, and actuarial assumptions. These methods and assumptions are chosen by the Board of Trustees after consultation with the Actuary and other advisors.

The actuarial cost method is called the Entry Age Actuarial Cost Method. This method is consistent with the Board's level percent of payroll funding objective. With this method, the level percent of payroll is determined that will fund a member's retirement benefit over the member's entire working lifetime, from date of hire (Entry Age) to date of exit from the active member population. Differences in the past between assumed and actual experience become part of unfunded actuarial accrued liabilities and are amortized with level percent of payroll contributions. This cost method was first used in the **June 30, 1986** valuation (actuarial gains and losses).

The asset valuation method is a four year smoothed market value method in which assumed investment return is recognized immediately each year and differences between actual and assumed investment return are phased in over a closed four year period. This asset valuation method is intended to give recognition to the long term accuracy of market values while filtering out and dampening short term market swings. This method was first used in the **June 30, 1995** valuation.

The actuarial assumptions used in producing the valuation fall into two broad classes: economic assumptions, and demographic assumptions. Economic assumptions refer to long term rates of investment return, wage growth, covered population growth, and inflation. Demographic assumptions refer to retirement rates, turnover rates, disability rates, merit and seniority pay increases, and mortality rates. The current assumptions are based upon 1987-2002 experience of the ATRS. The assumptions are reviewed from time to time to keep them reasonably current with expected experience.

Economic Assumptions

The investment return rate used in making the valuation was 8.0% per year, compounded annually (net after administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the inflation rate. Considering inflation recognition of 4.0%, the 8.0% rate translates to an assumed real rate of return of 4.0%. This rate was first used for the **June 30, 2002** valuation.

Pay increase assumptions for individual active members are shown on Tables IV and V. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation. These rates were first used for the **June 30, 2002** valuation. Price inflation is assumed to persist at a level sufficient to produce a 3% COLA.

Summary of Actuarial Assumptions and Methods (continued)

The Active Member Group size is assumed to remain constant at its present level.

Total active member payroll is assumed to increase 4.0% a year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This rate was first used for the **June 30, 2002** valuation.

Non-Economic Assumptions

The mortality table used to measure retired life mortality was the 1983 Group Annuity Mortality Table. Related values are shown on Table I. This table was first used for the June 30, 1998 valuation. It was reviewed as part of the June 30, 2002 valuation and deemed to still be an appropriate measurement of mortality for the plan. For disabled lives, the mortality table is set forward 5 years. This set forward of 5 years was first used for the **June 30, 2002** valuation.

The probabilities of retirement for members eligible to retire are shown on Tables II and III. The rates for full retirement were first used in the **June 30, 2002** valuation. The rates for reduced retirement were first used in the **June 30, 2002** valuation.

The probabilities of withdrawal from service, **death-in-service** and **disability** are shown for sample ages on Tables III and IV. The withdrawal and disability rates were first used in the **June 30, 2002** valuation. The death-in-service rates were first used in the **June 30, 2002** valuation.

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. Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date.

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

Table I
Single Life Retirement Values

Sample Attained Ages	Present Value of \$1.00 Monthly for Life		Present Value of \$1 Monthly for Life Increasing 3.0% Annually		Future Life Expectancy (years)		Percent Dying Within Next Year	
	Men	Women	Men	Women	Men	Women	Men	Women
40	\$142.98	\$147.82	\$184.74	\$193.70	38.46	44.52	0.12%	0.07%
45	138.18	144.67	176.24	187.61	33.74	39.69	0.22%	0.10%
50	132.10	140.42	165.94	179.79	29.18	34.92	0.39%	0.16%
55	124.57	134.74	153.75	169.90	24.82	30.24	0.61%	0.25%
60	115.04	127.24	139.16	157.58	20.64	25.67	0.92%	0.42%
65	103.26	117.61	122.19	142.67	16.69	21.29	1.56%	0.71%
70	90.18	105.53	104.27	125.11	13.18	17.13	2.75%	1.24%
75	76.40	91.57	86.27	105.96	10.15	13.37	4.46%	2.40%
80	62.65	77.16	69.17	87.10	7.64	10.20	7.41%	4.29%
85	50.59	62.99	54.72	69.36	5.73	7.58	11.48%	6.99%

Sample Attained Ages	Benefit Increasing 3.0% Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
60	\$100.00	100%	100%
65	115.00	94%	97%
70	130.00	85%	93%
75	145.00	72%	86%
80	160.00	54%	73%

Table II
Probabilities of Retirement for Members

Retirement Ages	% of Active Participants Retiring with Unreduced Benefits			
	Education		Support	
	Male	Female	Male	Female
48	50%	40%	40%	30%
49	50%	40%	40%	30%
50	10%	10%	7%	10%
51	10%	10%	7%	10%
52	10%	10%	14%	12%
53	13%	13%	16%	15%
54	14%	14%	18%	20%
55	15%	16%	20%	22%
56	15%	16%	22%	22%
57	15%	19%	25%	22%
58	15%	20%	27%	27%
59	20%	25%	35%	40%
60	15%	15%	16%	16%
61	20%	20%	25%	20%
62	30%	25%	35%	30%
63	20%	25%	25%	25%
64	20%	20%	25%	25%
65	35%	35%	35%	40%
66	30%	35%	30%	30%
67	30%	30%	30%	30%
68	30%	30%	30%	30%
69	30%	30%	30%	30%
70	30%	30%	30%	30%
71	30%	30%	30%	30%
72	30%	30%	30%	30%
73	30%	30%	30%	30%
74	30%	30%	30%	30%
75	100%	100%	100%	100%

Probabilities of Reduced Retirement for Members

Retirement Ages	% of Active Participants Retiring with Reduced Benefits			
	Education		Support	
	Male	Female	Male	Female
50	2%	2%	2%	2%
51	2%	2%	2%	2%
52	3%	3%	3%	3%
53	4%	4%	4%	4%
54	4%	4%	4%	4%
55	6%	6%	6%	6%
56	9%	5%	9%	5%
57	9%	5%	9%	5%
58	9%	5%	9%	5%
59	9%	5%	9%	5%
60	100%	100%	100%	100%

Table III
Probabilities of T-DROP for Members

Ages	Percent of Eligible Active Members Entering T-DROP Within Next Year			
	Education		Support	
	Male	Female	Male	Female
50	40%	45%	30%	20%
51	35%	45%	30%	30%
52	50%	45%	55%	45%
53	50%	45%	55%	50%
54	45%	45%	55%	50%
55	45%	45%	45%	50%
56	45%	40%	45%	50%
57	45%	40%	45%	50%
58	45%	40%	50%	50%
59	45%	40%	50%	50%
60	45%	35%	50%	40%
61	45%	35%	50%	30%
62	40%	35%	50%	30%
63	30%	35%	50%	30%
64	40%	40%	50%	40%
65	50%	50%	50%	50%
66	50%	50%	50%	50%
67	50%	50%	50%	50%
68	50%	50%	50%	50%
69	50%	50%	50%	50%
70	50%	50%	50%	50%
71	50%	50%	50%	50%
72	50%	50%	50%	50%
73	50%	50%	50%	50%
74	50%	50%	50%	50%
75	50%	50%	50%	50%
76	50%	50%	50%	50%
77	50%	50%	50%	50%
78	50%	50%	50%	50%
79	50%	50%	50%	50%

Members entering T-DROP are assumed to remain in T-DROP according to the following table:

Age	Assumed Duration Years
50-56	6
57	5
58	4
59+	3

Table IV
Teachers Separations From Active Employment Before
Age and Service Retirement and Individual Pay Increase

Sample Ages	Service	Percent of Active Members Separating Within the Next Year					
		Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					32.00%	25.00%
	1					15.00%	12.00%
	2					11.00%	9.00%
	3					7.50%	9.00%
	4					5.00%	7.00%
20	5 & Up	0.02%	0.01%	0.10%	0.09%	4.60%	4.60%
25		0.02%	0.01%	0.10%	0.09%	4.60%	4.84%
30		0.03%	0.02%	0.08%	0.07%	3.94%	4.40%
35		0.04%	0.02%	0.08%	0.07%	3.20%	3.10%
40		0.06%	0.03%	0.14%	0.13%	2.70%	2.20%
45		0.11%	0.05%	0.24%	0.22%	2.08%	2.00%
50		0.20%	0.08%	0.53%	0.47%	1.62%	1.70%
55		0.31%	0.13%	0.88%	0.79%	1.50%	1.50%
60		0.46%	0.21%	1.00%	0.90%	1.50%	1.50%
65		0.78%	0.35%	1.00%	0.90%	1.50%	1.50%

Pay Increase Assumptions For an Individual Member

Age	Merit & Seniority	Base (Economic)	Increase Next Year
20	5.4%	4.0%	9.4%
25	4.4%	4.0%	8.4%
30	3.4%	4.0%	7.4%
35	2.4%	4.0%	6.4%
40	1.7%	4.0%	5.7%
45	1.2%	4.0%	5.2%
50	0.8%	4.0%	4.8%
55	0.4%	4.0%	4.4%
60	0.3%	4.0%	4.3%
65	0.3%	4.0%	4.3%

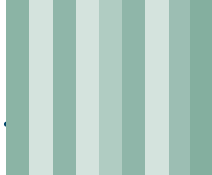


Table V
**Non-Teachers Separations From Active Employment Before
Age and Service Retirement and Individual Pay Increase**

Sample Ages	Service	Percent of Active Members Separating Within the Next Year					
		Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					40.00%	40.00%
	1					30.00%	25.00%
	2					22.00%	18.00%
	3					18.00%	14.00%
	4					13.00%	11.00%
20	5 & Up	0.02%	0.01%	0.10%	0.08%	13.00%	11.00%
25		0.02%	0.01%	0.10%	0.08%	12.00%	11.00%
30		0.03%	0.02%	0.08%	0.07%	10.80%	7.60%
35		0.04%	0.02%	0.08%	0.07%	8.20%	5.40%
40		0.06%	0.03%	0.14%	0.12%	5.80%	4.70%
45		0.11%	0.05%	0.24%	0.19%	4.10%	4.20%
50		0.20%	0.08%	0.53%	0.42%	2.90%	2.80%
55		0.31%	0.13%	0.88%	0.70%	1.90%	1.70%
60		0.46%	0.21%	1.00%	0.80%	1.50%	1.50%
65		0.78%	0.35%	1.00%	0.80%	1.50%	1.50%

Age	Pay Increase Assumptions For an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	6.1%	4.0%	10.1%
25	5.2%	4.0%	9.2%
30	4.2%	4.0%	8.2%
35	3.6%	4.0%	7.6%
40	2.9%	4.0%	6.9%
45	1.5%	4.0%	5.5%
50	0.6%	4.0%	4.6%
55	0.2%	4.0%	4.2%
60	0.0%	4.0%	4.0%
65	0.0%	4.0%	4.0%

Analysis of Financial Experience

Type of Risk Area	2000	Gain (Loss) For Year Ended (\$ Millions)			
		2001	2002	2003	2004
ECONOMIC RISK AREAS					
Pay increases. <i>If there are smaller pay increases</i> than assumed, there is a gain. If greater increases, a loss.	\$(28.6)	\$7.7	\$19.3	\$12.9	\$27.7
Gross Investment Return. <i>If there is greater investment</i> return than assumed, there is a gain. If less return, a loss.	399.1	16.5	(392.9)	(767.6)	(218.6)
NON-ECONOMIC RISK AREAS					
Retirements and T-Drop. <i>If members retire at</i> older ages, there is a gain. If younger ages, a loss.	13.4	7.4	7.0	6.9	6.1
Disability Retirements. <i>If there are fewer disabilities</i> than assumed, there is a gain. If more, a loss.	0.3	(0.2)	(0.6)	0.0	(1.6)
Death-in-Service Benefits. <i>If there are fewer claims</i> than assumed, there is a gain. If more, a loss.	1.5	1.6	1.4	0.8	1.1
Withdrawal. <i>If more liabilities are released by other</i> separations than assumed, there is a gain. If smaller releases, a loss.	(5.8)	(1.6)	(0.9)	(1.7)	(5.9)
Death After Retirement. <i>If there is higher mortality</i> than assumed, there is a gain. If lower mortality, a loss.	(2.4)	(6.1)	4.8	7.5	(2.6)
TOTAL	\$ 377.5	\$25.3	\$(361.9)	\$(741.2)	\$(193.8)

Comments

General Financial Objective. Section 24-3-103 of the Arkansas Code provides as follows (emphasis added):

“6.01. (1) The general financial objective of each Arkansas public employee retirement plan shall be to **establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens.** More specifically, contributions received each year shall be sufficient both to (i) fully cover the costs of benefit commitments being made to members for their service being rendered in such year and (ii) make a level payment which if paid annually over a reasonable period of future years will fully cover the unfunded costs of benefit commitments for service previously rendered”

Arkansas Teacher Retirement System Status. Based upon the results of June 30, 2004 actuarial valuations, ATRS is satisfying the financial objective of level-contribution-percent financing.

This valuation reflects the Employer rate increase to 14% for the 2004/2005 fiscal year.

Market investment experience for the year end June 30, 2004 was very favorable. The amortization period this year is 31 years, a decrease from last year's 36-year period. The amortization period of 31 years is the net result of favorable investment experience in the 2003/2004 year, the contribution rate change to 14% and other miscellaneous effects. Unfortunately, there remains approximately \$300 million of unrecognized investment losses that will affect future valuations. Investment return well above the assumed rate will be required in 2004/2005 to keep the amortization period below 40 years as of June 30, 2005.

The Arkansas Teacher Retirement System is 84% funded as of June 30, 2004, indicating a solid financial position and significant progress in recovering from one of the worst investment markets since the Great Depression.

STATISTICS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2004

Schedule of Revenue By Source

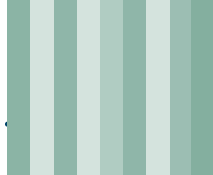
Year Ending June 30	Member Contributions	<u>Employer Contributions</u>		Investment Income	Total
		Employer Contributions	% of Annual Covered Payroll		
2004	\$77,772,019	\$224,184,274	12.8%	\$1,195,341,063	\$1,497,297,356
2003	76,734,478	200,455,916	11.9%	72,259,296	349,449,690
2002	71,893,349	191,352,910	11.8%	(461,538,652)	(198,292,393)
2001	68,717,889	181,115,569	11.6%	(254,206,596)	(4,373,138)
2000	55,633,069	175,686,958	11.8%	638,534,760	869,854,787
1999	50,842,231	166,785,926	11.7%	781,034,414	998,662,571
1998	48,329,053	158,962,714	11.6%	921,429,638	1,128,721,405
1997	40,214,965	153,546,224	11.7%	1,000,201,271	1,193,962,460

Schedule of Expenses By Type

Year Ending June 30	Benefit Payments	Administrative Expenses	Refunds	Total
2004	\$413,433,516	\$8,197,465	\$4,017,884	\$425,648,865
2003	383,071,936	7,973,933	3,585,188	394,631,057
2002	354,949,683	7,354,162	2,744,684	365,048,529
2001	323,392,426	8,254,731	2,975,138	334,622,295
2000	284,356,092	9,729,999	3,317,881	297,403,972
1999	243,710,242	4,344,055	3,405,210	251,459,507
1998	215,573,711	4,375,104	3,373,945	223,322,760
1997	191,717,604	3,705,351	3,933,212	199,356,167

Schedule of Benefit Expenses By Type

Year Ending June 30	2004	2003	2002	2001	2000	1999
Age and Service	\$338,817,041	\$315,456,745	\$291,969,589	\$ 265,279,449	\$ 237,039,361	\$ 207,331,239
Disability	20,968,493	19,836,787	18,965,804	18,097,625	16,270,465	14,133,718
Option	9,524,367	8,847,041	7,947,966	6,877,850	6,007,193	5,074,249
Survivor	5,585,284	5,503,873	5,306,397	4,837,322	4,376,641	3,686,637
Reciprocity	11,551,771	10,245,385	8,878,504	7,524,324	5,983,136	4,610,128
Active Members Death Benefit	575,813	713,094	580,689	688,447	695,623	329,678
T-DROP	22,950,458	18,600,700	17,038,780	15,934,672	9,474,689	4,916,716
Act 808	4,294,802	4,272,018	4,261,953	4,152,737	4,544,286	3,627,877
Total	\$414,268,026	\$383,475,643	\$354,949,682	\$ 323,392,426	\$ 284,391,394	\$ 243,710,242



Schedule of Retired Members By Type of Benefit

Monthly Benefit	Number of Retirants	Type of Retirement*					Life	Option Selected #		
		1	2	3	4	5		Opt. A	Opt. B	Opt. C
\$1-250	2,225	1,856	39	109	207	14	1,900	244	19	62
251-500	2,154	1,673	41	163	240	37	1,823	232	46	53
501 - 750	1,730	1,385	58	31	213	43	1,410	208	71	41
751 - 1000	1,496	1,128	65	31	222	50	1,204	180	86	26
1001 - 1250	1,489	1,153	47	44	210	35	1,194	173	88	34
1251 - 1500	1,670	1,358	46	39	200	27	1,364	174	100	32
1501 - 1750	1,807	1,570	23	20	175	19	1,471	170	125	41
1751 - 2000	2,028	1,845	31	31	110	11	1,626	188	162	52
Over \$2000	6,477	6,166	98	53	148	12	5,000	666	622	189
Totals	21,076	18,134	448	521	1,725	248	16,992	2,235	1,319	530

* Type of Retirement

1. Normal retirement for age and service
2. Survivor payment - normal or early retirement
3. Survivor payment - death-in-service
4. Disability retirement
5. Survivor payment - disability retirement

Excludes Act 793 and Act 808 retirees.

Option selected at retirement

Life - Straight life annuity

Option A - 100% survivor annuity

Option B - 50% survivor annuity

Option C - Annuity for 10 years certain and life thereafter

Schedule of Average Benefit Payments

Retirement Effective Dates

July 1, 1995 to June 30, 2004		5-9	10-14	15-19	20-24	25-29	30+
7/01/95-6/30/96	Average Monthly Benefit	\$162	\$330	\$670	\$954	\$1,353	\$1,920
	Average Final Salary	\$19,056	\$16,972	\$23,793	\$25,654	\$31,508	\$33,883
	Number of Active Retirants	38	105	112	124	198	361
7/01/96-6/30/97	Average Monthly Benefit	\$149	\$344	\$721	\$1,006	\$1,344	\$1,986
	Average Final Salary	\$16,565	\$18,811	\$26,730	\$27,576	\$31,526	\$35,744
	Number of Active Retirants	61	115	99	103	203	284
7/01/97-6/30/98	Average Monthly Benefit	\$199	\$297	\$712	\$1,117	\$1,584	\$2,096
	Average Final Salary	\$21,528	\$16,808	\$24,491	\$28,474	\$33,396	\$36,007
	Number of Active Retirants	46	152	107	142	268	272
7/01/98-6/30/99	Average Monthly Benefit	\$174	\$369	\$777	\$1,197	\$1,636	\$2,149
	Average Final Salary	\$13,734	\$19,411	\$26,758	\$32,278	\$35,179	\$36,306
	Number of Active Retirants	492	187	119	114	317	301
7/01/99-6/30/00	Average Monthly Benefit	\$204	\$362	\$860	\$1,226	\$1,743	\$2,361
	Average Final Salary	\$13,612	\$17,288	\$28,523	\$30,543	\$36,513	\$37,919
	Number of Active Retirants	219	138	102	137	308	318
7/01/00-6/30/01	Average Monthly Benefit	\$210	\$422	\$920	\$1,333	\$1,887	\$2,459
	Average Final Salary	\$14,772	\$19,899	\$31,531	\$33,529	\$39,490	\$39,512
	Number of Active Retirants	315	229	125	132	387	333
7/01/01-6/30/02	Average Monthly Benefit	\$207	\$363	\$797	\$1,348	\$1,919	\$2,528
	Average Final Salary	\$13,507	\$17,606	\$27,482	\$34,586	\$39,489	\$40,211
	Number of Active Retirants	477	376	195	171	423	269
7/01/02-6/30/03	Average Monthly Benefit	\$213	\$439	\$824	\$1,321	\$1,982	\$2,530
	Average Final Salary	\$16,577	\$21,197	\$28,856	\$34,031	\$40,871	\$39,797
	Number of Active Retirants	304	225	155	151	473	265
7/01/03-6/30/04	Average Monthly Benefit	\$249	\$456	\$802	\$1,396	\$2,044	\$2,602
	Average Final Salary	\$17,121	\$21,690	\$29,657	\$37,471	\$41,637	\$41,256
	Number of Active Retirants	331	254	184	163	486	225

Schedule of Participating Employers

As of June 30, 2004

Academics Plus Charter School	Bergman School District	Dawson Education Service Coop
Acorn School District	Berryville School District	Decatur School District
Alma School District	Biggers-Reyno School District	Deer School District
Alpena School District	Bismark School District	Delaphaine School District
Alread School District	Black River Technical College	Delight School District
Alzheimer Unified School District	Black Rock School District	Delta Special School District
Altus-Denning School District	Blevins School District	Department of Corrections School
Arch Ford Education Service Coop	Blytheville School District	DeQueen/Mena Educational Coop
Area Technical Center (Jonesboro)	Booneville School District	DeQueen School District
Area Vocational Technical Center (Russellville)	Boston Mountain Education Coop	Dermott School District
Arkadelphia School District	Bradford School District	Des Arc School District
Arkansas Activities Association	Bradley School District	DeValls Bluff School District
Arkansas Association Education Admin	Bright Star School District	DeWitt School District
Arkansas City School District	Brinkley School District	Dierks School District
Arkansas Department of Education	Brookland School District	Dollarway School District
Arkansas Department of Higher Education	Bryant School District	Dover School District
Arkansas Dept of Economic Development	Buffalo Island Central School District	Drew Central School District
Arkansas Department of Workforce Education	Cabot School District	Dumas School District
Arkansas Educational Television Network	Caddo Hills School District	Earle School District
Arkansas Northeastern College	Caddo Special Education Coop	East Arkansas Community College
Arkansas Rehabilitation Services	Calico Rock School District	East End School District
Arkansas River Education Cooperative	Camden-Fairview School District	East Poinsett School District
Arkansas School Boards Ins. Trust	Carlisle School District	Easter Seals Arkansas
Arkansas School for the Blind	Carthage School District	El Dorado School District
Arkansas School for the Deaf	Cave City School District	Elaine School District
Arkansas State University-Beebe	Cedarville School District	Elkins School District
Arkansas State University-Jonesboro	Centerpoint School District	Emerson School District
Arkansas State University-Mt. Home	Charleston School District	Emmet School District
Arkansas State University-Newport	Clarendon School District	England School District
Arkansas Teacher Retirement System	Clarksville School District	Eudora School District
Arkansas Tech University	Clay County Central School District	Eureka Springs School District
Arkansas Workforce Investment Board	Clinton School District	Evening Shade School District
Armored School District	Concord School District	Farmington School District
Ashdown School District	Conway School District	Fayetteville School District
Ashley County Adult Education	Cord-Charlotte School District	Flippin School District
Atkins School District	Corning School District	Florence Crittenden Home
Augusta School District	Cossatot Community College U of A	Focus Learning Academy
Bald Knob School District	Cotter School District	Fordyce School District
Barton-Lexa School District	Cotton Plant School District	Foreman School District
Batesville School District	County Line School District	Forrest City School District
Bauxite School District	Conway Area Career Center	Fort Smith School District
Bay School District	Craighead County Board of Education	Fouke School District
Bearden School District	Crawfordsville School District	Fountain Hill School District
Beebe School District	Crowley's Ridge Educational Coop	Fountain Lake School District
Benton County School of Arts	Crowley's Ridge Technical Institute	Fourche Valley School District
Benton School District	Cross County School District	Genoa-Central School District
Bentonville School District	Crossett School District	Gentry School District
	Cushman School District	Gillett School District
	Cutter-Morning Star School District	Glen Rose School District
	Danville School District	Gosnell School District
	Dardanelle School District	Gould School District

Schedule of Participating Employers (continued)

As of June 30, 2004

Grady School District	Lafayette County School District	Mount Ida School District
Gravette School District	Laidlaw Transportation	Mount Judea School District
Great Rivers Cooperative	Lake Hamilton School District	Mount Pleasant School District
Green Forest School District	Lakeside School District (Hot Springs)	Mount Vernon-Enola School District
Greenbrier School District	Lakeside School District (Lake Village)	Mountain Home School District
Greene County School District	Lakeview School District	Mountain Pine School District
Greenland School District	Lamar School District	Mountain View School District
Greenwood School District	Lavaca School District	Mountainburg School District
Gurdon School District	Lead Hill School District	Mulberry School District
Guy-Perkins School District	Lee County School District	Murfreesboro School District
Hackett School District	Leslie School District	National Park Community College
Hamburg School District	Lincoln School District	Nashville School District
Hampton School District	Literacy Council of Lonoke	Nemo Vista School District
Harmony Grove School District (Benton)	Little Rock School District	Nettleton School District
Harmony Grove School District (Camden)	Locksburg School District	Nevada County School District
Harrisburg School District	Logan County Board of Education	Newark School District
Harrison School District	Lonoke School District	Newport School District
Hartford School District	Lynn School District	Norfolk School District
Hatfield School District	Magazine School District	Norphlet School District
Hazen School District	Magnet Cove School District	North Arkansas College
Heber Springs School District	Magnolia School District	North Central AR Ed Service Center
Hector School District	Malvern School District	North Central Career Center
Helena-West Helena School District	Mammoth Spring School District	Northeast Arkansas Educational Coop
Henderson State University	Manila School District	North Little Rock School District
Hermitage School District	Mansfield School District	Northwest Arkansas Community College
Highland School District	Marion School District	Northwest Arkansas Education
Holly Grove School District	Marion County School District	Service Coop
Hope School District	Marked Tree School District	Northwest Technical Institute
Horatio School District	Marmaduke School District	Oark School District
Hot Springs County Board of Education	Marshall School District	Oden School District
Hot Springs School District	Marvell School District	Ola School District
Hoxie School District	Mayflower School District	Omaha School District
Hughes School District	Maynard School District	Osceloa School District
Humphrey School District	McCrary School District	Ouachita School District
Huntsville School District	McGehee School District	Ouachita Technical College
Huttig School District	McNeil School District	Ozark School District
Imboden Area Charter School	McRae School District	Ozarka College
Izard County School District	Melbourne School District	Ozarks Unlimited Resources Coop
Jackson County School District	Mena School District	Palestine-Wheatley School District
Jasper School District	Metropolitan Career and	Pangburn School District
Jefferson County Adult Education	Technical Center	Paragould School District
Jessieville School District	Midland School District	Paris School District
Jonesboro School District	Mid-South Community College	Parkers Chapel School District
Junction City School District	Mineral Springs School District	Parkin School District
Kingsland School District	Monticello School District	Paron School District
Kingston School District	Monticello Occupational	Pea Ridge School District
KIPP: Delta College Preparatory	Education Center	Perry-Casa School District
Kirby School District	Mount Holly School District	Perryville School District

Schedule of Participating Employers (continued)

As of June 30, 2004

Phillips Com. College-DeWitt	Southern Arkansas Developmental Center	West Fork School District
Phillips Community College U of A	Southern Arkansas University-Magnolia	West Memphis School District
Phillips County Board of Education	So. Mississippi Cty. School District	West Side School District (Greers Ferry)
Piggott School District	Southside School District (Batesville)	West Side School District (Hartman)
Pine Bluff School District	Southside School District (Bee Branch)	West Side School District (Jonesboro)
Plainview-Rover School District	Southwest Arkansas Educational Coop	Western Arkansas Migrant Ed Coop
Pleasant View School District	Sparkman School District	Western Grove School District
Pocahontas School District	Spring Hill School District	Western Yell Cty. School District
Pottsville School District	Springdale School District	White County Board of Education
Poyen School District	Star City School District	White County Central School District
Prairie Grove School District	Stephens School District	White Hall School District
Prescott School District	Stone County School District	Wickes School District
Pulaski County School District	Strong School District	Wilbur D. Mills Ed Service Coop
Pulaski Technical College	Stuttgart School District	Wilburn School District
Quitman School District	Sulphur Rock School District	Williford School District
Randolph County School District	Swifton School District	Winslow School District
Rector School District (Clay Co. Central)	Taylor School District	Wonderview School District
Rich Mountain Community College	Texarkana Area Vocational Center	Woodlawn School District
Rison School District	Texarkana School District	Wynne School District
River Valley School District	Trumann School District	Yellville-Summitt School District
River Valley Technical Center	Turrell School District	
Riverside School District	Umpire School District	
Riverside Vocational Technical School	Union County School District	
Riverview School District	University of Arkansas-Batesville	
Rogers School District	University of Arkansas-Fayetteville	
Rosebud School District	University of Arkansas-Fort Smith	
Rural Special School District	University of Arkansas-Hope	
Russellville School District	University of Arkansas-Little Rock	
Saint Joe School District	University of Arkansas-Medical Science	
Saint Paul School District	University of Arkansas-Monticello	
Salem School District	University of Arkansas-Morrilton	
Saratoga School District	University of Arkansas-Pine Bluff	
Scotland School District	University of Central Arkansas	
Scranton School District	Valley Springs School District	
Searcy School District	Valley View School District	
Sheridan School District	Van Buren School District	
Shirley School District	Van-Cove School District	
Siloam Springs School District	Vilonia School District	
Sloan-Hendrix School District	Viola School District	
Smackover School District	Waldo School District	
South Arkansas Community College-El Dorado	Waldron School District	
South Arkansas University Tech-Camden	Walker School District	
South Central Service Coop	Walnut Ridge School District	
South Conway Cty School District	Warren School District	
Southeast Arkansas College	Watson Chapel School District	
Southeast Arkansas Community Based Education Center (Warren)	Weiner School District	
Southeast Arkansas Education Ser Coop	West Campus Technical Center (Fayetteville)	