EXHIBIT
16

Actuarial Assumptions and Methods

The Board engages an independent firm of actuaries to estimate the present value of actuarial accrued liability and the pension benefit obligations for the purpose of determining required reserves for current and terminated participants, retired individuals and beneficiaries, and for the determination of employer contribution rates. Actuarial assumptions and methods utilized in the latest actuarial valuation are listed below.

Valuation Date	June 30, 2012
Actuarial Cost Method	Ultimate Entry Age Normal
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	30 year open
Asset Valuation Method	4 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	4.00%
Including Price Inflation at	4.00%
Cost-of-living Adjustments	3.00%
Retirees and Beneficiaries Receiving Benefits	580
Terminated Plan Members Entitled to but not yet Receiving Benefits	54
DROP Members	63
Active Plan Members	471
Total	1,168

Arkansas State Police Retirement System
124 West Capitol Avenue • Suite 400 • Little Rock, AR 72201

Dear Trustees,

As stated in the State of Arkansas Code 24-4-752, State Police Trust Fund:

- (a) All assets of the State Police Retirement System are transferred to the Arkansas Public Employees Retirement System to hold in trust for the State Police Retirement System;
- (c)(1) The State Police Trust Fund shall not be treated as segregated funds, but shall be commingled with the assets of the Arkansas Public Employees' Retirement System strictly for investment purposes.

On July 01, 2009, the investment assets of the Arkansas State Police Retirement System (ASPRS) were merged with the investment assets of the Arkansas Public Employees Retirement System (APERS).

On behalf of the Investment Department, it is my pleasure to present the *Investment Section* of the ASPRS *Annual Financial Report* for the fiscal year ended June 30, 2012.

Performance and Stability

For fiscal year 2012, the ASPRS investment portfolio closed with total assets of $197,037,229. The investment return for the fiscal year was -0.33% net of all fees and expenses. The second half of 2011 provided encouragement as fiscal year 2011 closed and fiscal year 2012 began. The global rally in equity markets seemed to be continuing based on classic valuation measures. Equities appeared to be reasonable valued on a historical basis. The S&P was trading at about 13.5x forward earnings which was below the 15-year average of 17x. However, the seemingly positive financial market environment was about to change as the global economic environment dominated the news.

Fiscal Year 2012 Financial Market Recap

The European sovereign debt crisis will probably be remembered as the major economic event of 2011. It dominated the headlines and drove overall sentiment. However, there were other significant global events: political upheaval in the Middle East; a terrible earthquake and tsunami in Japan which cause the Fukushima disaster; S&P downgraded the credit rating of the United States, and the blowup of investment bank MF Global which resulted in the 7th largest bankruptcy in U.S. history.

With that background, the US stock market went absolutely nowhere. The S&P 500 closed 2010 at 1,257.64 and closed 2011 at 1,257.60. The index fell just four one hundredths of a point; the smallest annual price change since 1947.

The U.S. Federal Reserve committed to ZIRP (zero interest rate policy) at least until mid-2013 and announced it will provide forecasts on its intentions for 12 months. These quarterly forecasts are a first in Fed policy. With ZIRP having an obvious lower bound, nominal rates cannot drop below zero, the Fed also