Arkansas Local Police and Fire Retirement System
(LOPFI)

Financial Statements and Additional Information

Years ended December 31, 2004 and 2003

with

Independent Auditor's Report

William T. Kinneman
CERTIFIED PUBLIC ACCOUNTANT

LITTLE ROCK, ARKANSAS

INDEX

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CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

The Board of Trustees
Arkansas Local Police and Fire Retirement System
Little Rock, Arkansas

I have audited the accompanying statements of plan net assets of Arkansas Local Police and Fire Retirement System defined benefit pension plan at December 31, 2004 and 2003 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Arkansas Local Police and Fire Retirement System defined benefit pension plan at December 31, 2004 and 2003 and the related changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

My audits were made primarily for the purpose of expressing an opinion on the basic financial statements taken as a whole. The accompanying supplementary management discussion and analysis on pages 2 - 5 and the additional information on page 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. The schedule of administrative and investment expenses and the schedule of actual versus budgeted expenses on pages 15 and 16 are presented for purposes of additional analysis and are not required by generally accepted accounting principles. Such additional information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

William T. Kinneman

April 29, 2005
Little Rock, Arkansas

Arkansas Local Police and Fire Retirement System

Required Supplementary Information

Management Discussion and Analysis

The basic financial statements contained in this section of the Comprehensive Annual Financial Report consist of:

The *Statement of Plan Net Assets*, which reports the pension fund assets, liabilities, and net assets available at the end of the calendar year. The *Statement of Plan Net Assets* is prepared on the accrual basis and for the most part, the plan's net assets are reported on a fair value basis.

The *Statement of Changes in Plan Net Assets*, which reports the pension fund transactions that occurred during the calendar year where Additions – Deductions = Net Change in Net Assets. It is an operating statement that reports the net increase or decrease in net plan assets from the beginning of the year until the end of the year.

The *Notes to the Financial Statements* are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.

The *Required Supplementary Information and Schedules* following the *Notes to the Financial Statements* provide added historical and detailed information considered useful in evaluating the condition of the Arkansas Local Police and Fire Retirement System (LOFPI).

The following pages contain summary comparative statements of LOPFI's pension trust fund for years 2004 and 2003.

Arkansas Local Police and Fire Retirement System
Year ended December 31, 2004

Summary of Comparative Statements of Plan Net Assets

	As of December 31, 2004	As of December 31, 2003	Percent Change
Cash and short-term investments	$ 13,872,704	$ 18,922,844	(26.69) %
Invested securities lending collateral	70,548,673	66,651,500	5.85
Total receivables	5,057,864	3,696,346	36.83
Prepaid expense	69,035	34,933	97.62
Investments	587,921,607	513,531,865	14.49
Land, building, furniture and equipment	1,608,596	1,521,298	5.74
Total assets	$ 679,094,050	$ 537,707,286	12.36
Accounts payable and accrued expenses	$ 537,028	$ 351,512	46.82
Refunds payable	75,069	143,315	(47.62)
Due to Pension Review Board	759,217	975,528	(22.17)
Collateral for securities on loan	70,548,673	66,651,500	5.85
Total liabilities	1,350,381	1,470,355	(8.16)
Net assets held for pension benefits	607,174,063	536,236,931	13.23
Total liabilities and net assets held for pension benefits	$ 679,094,050	$ 604,358,786	12.36 %

The decrease in Cash and Short Term Investments and the inrease in Investments are a reflection of the financial markets continuing to improve. Although earned rates were not as high as the previous year both recognized and unrecognized gains were still strong. Another factor in the increase in investments was the consolidation of 18 Local Plans into LOPFI bringing in $7.6 million in assets. Total Receivables increased in part due to normal growth of the plan and also because of the above-mentioned consolidation of 18 Local Plans into LOPFI as well as 18 new locations adopting LOPFI coverage. The increase in Prepaid Expenses is attributable to both an increase in the fiduciary liability premium which was paid in 2004 and the creation of an escrow account for the new LOPFI Building. The increase in Land, Building, Furniture and Equipment reflect the beginning of an extensive renovation project on the LOPFI Building that was purchased in 2003. Readers desiring more detailed information on capital asset activity should refer to Note # 4 in the notes to the Financial Statements. The amount Due to the PRB decreased due to the fact that no funds were distributed from the Department of Finance and Administration to cover the operating expenses for the Pension Review Board. Securities lending collateral is higher due to fact that activity only began in late 2003.

Arkansas Local Police and Fire Retirement System
Year ended December 31, 2004

Summary of Comparative Statements of Changes in Plan Net Assets

	Year ended December 31, 2004	Year ended December 31, 2003	Percent Change
Contributions	$ 46,159,324	$ 30,895,542	49.40 %
Net investment income	46,531,092	94,768,863	(51.05)
Total additions	92,690,416	125,664,405	(26.22)
Benefits paid	17,669,863	17,127,556	3.17
Refunds of contributions	1,278,586	1,020,567	25.28
Administrative expenses	1,034,523	1,043,293	(0.84)
Deferred retirement option distributions	1,770,312	2,892,885	(38.80)
Total deductions	21,753,284	22,084,301	(1.50)
Net increase in plan net assets	70,937,132	103,580,104	(31.49)
Plan net assets-beginning of year	536,236,931	432,656,827	23.94
Plan net assets-end of year	$ 607,174,063	$ 536,236,931	13.23 %

Contributions increased as a result of a 4.8% increase in active membership. This membership growth was due to a combination of new hires in existing LOPFI covered employer groups along with the consolidation of 18 Local Plans into LOPFI and also 18 new departments which adopted LOPFI coverage. Net Investment Income decreased from the previous year as a result of market values increasing at a slower rate causing a reduction in unrealized gains in the current year. The total number of retirees increased by 20.9% resulting in an increase in Benefits Paid. Although the percentage increase of retirees was much greater than the percentage increase in Benefits Paid, the number of volunteer retirees (who traditionally receive a lower dollar benefit than retirees from a paid department) made up a larger percentage of total retirees. Administrative expenses were lower due to the Agency operating with one staff vacancy. Fewer local plan DROP members leaving service accounted for the decrease in Deferred Retirement Option distributions.

Arkansas Local Police and Fire Retirement System
Year ended December 31, 2003

Summary of Comparative Statements of Plan Net Assets

	As of December 31, 2003	As of December 31, 2002	Percent Change
Cash and short-term investments	$ 18,922,844	$ 33,028,695	(42.71) %
Invested securities lending collateral	66,651,500		N/A
Total receivables	3,696,346	3,631,328	1.79
Prepaid expense	34,933	5,028	594.77
Investments	513,531,865	397,363,752	29.23
Land, building, furniture and equipment	1,521,298	44,753	3299.32
Total assets	$ 604,358,786	$ 434,073,556	39.23
Accounts payable and accrued expenses	$ 351,512	$ 353,694	(0.62)
Refunds payable	143,315	139,684	2.60
Due to Pension Review Board	975,528	923,351	5.65
Collateral for securities on loan	66,651,500		N/A
Total liabilities	1,470,355	1,416,729	3.79
Net assets held for pension benefits	536,236,931	432,656,827	23.94
Total liabilities and net assets held for pension benefits	$ 604,358,786	$ 434,073,556	39.23 %

Summary of Comparative Statements of Changes in Plan Net Assets

	Year ended December 31, 2003	Year ended December 31, 2002	Percent Change
Contributions	$ 30,895,542	$ 28,580,971	8.10 %
Net investment income (loss)	94,768,863	(46,547,609)	303.60
Total additions (reductions)	125,664,405	(17,966,638)	799.43
Benefits paid	17,127,556	14,604,923	17.27
Refunds of contributions	1,020,567	1,037,067	(1.59)
Administrative expenses	1,043,293	910,408	14.60
Deferred retirement option distributions	2,892,885	2,469,774	17.13
Total deductions	22,084,301	19,022,172	16.10
Net increase (decrease) in plan net assets	103,580,104	(36,988,810)	380.03
Plan net assets-beginning of year	432,656,827	469,645,637	(7.88)
Plan net assets-end of year	$ 536,236,931	$ 432,656,827	23.94 %

The decrease in Cash and Short-term Investments and the increase in Investments were attributable to a rebound in the overall financial markets resulting in higher rates earned and increases in recognized and unrecognized gains. The increase in Prepaid Expenses was the result of the payment of the 2004 fiduciary liability insurance premium in 2003. Land, building, furniture and equipment increased due to the purchase of an office building. Contributions increased due to a 1.5% increase in active membership and the consolidation of additional local plans into LOPFI. Benefits paid increased due to a 9.26% increase in the number of retirees. Additional local plan DROP members leaving service accounted for the increased distribution amounts. Securities lending activities were new in 2003.

Arkansas Local Police and Fire Retirement System

Statement of Plan Net Assets

December 31, 2004 and 2003

	2004	(as restated) 2003
Assets		
Cash and short-term investments	$ 13,872,704	$ 18,922,844
Receivables:		
Contributions receivable	2,848,813	2,007,648
Accrued interest and dividends	2,143,950	1,688,698
Other receivables	65,101	
Total receivables	5,057,864	3,696,346
Prepaid expense	69,035	34,933
Investments at fair value:		
U. S. Government and state obligations	135,813,613	110,728,370
Corporate obligations	28,710,180	27,858,154
Foreign bonds	1,233,077	1,331,788
Fixed income collective trusts	58,499,268	56,543,819
Common and preferred stocks	227,877,831	193,805,167
Equity mutual collective trusts	135,787,638	123,264,567
Total investments	587,921,607	513,531,865
Invested securities lending collateral	70,548,673	66,651,500
Land, building, furniture and equipment-at cost	1,608,496	1,521,298
Other assets	15,671	
	$ 679,094,050	$ 604,358,786
Liabilities and net assets held in trust for pension benefits		
Liabilities:		
Accounts payable and accrued expenses	$ 537,028	$ 351,512
Refunds payable	75,069	143,315
Due to Pension Review Board	759,217	975,528
Collateral for securities on loan	70,548,673	66,651,500
Total liabilities	71,919,987	68,121,855
Net assets held in trust for pension benefits	607,174,063	536,236,931
	$ 679,094,050	$ 604,358,786

See accompanying notes.

Arkansas Local Police and Fire Retirement System

Statement of Changes in Plan Net Assets

Years ended December 31, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Member contributions	$ 7,611,322	$ 7,997,262
Employer contributions	30,802,924	22,412,513
Local plan administrative mergers and paid military time	7,745,078	485,767
Total contributions	46,159,324	30,895,542
Investment income:		
Net increase in fair value of investments	39,440,790	87,703,313
Interest, dividends, and other income	9,727,605	9,612,655
Securities lending income	145,670	42,775
Investment expenses	(2,782,973)	(2,589,880)
Total investment income	46,531,092	94,768,863
Total additions	92,690,416	125,664,405
Deductions:		
Benefits paid	17,669,863	17,127,556
Refunds of contributions	1,278,586	1,020,567
Administrative expenses	1,034,523	1,043,293
Deferred retirement option distributions	1,770,312	2,892,885
Total deductions	21,753,284	22,084,301
Net increase in plan net assets	70,937,132	103,580,104
Plan net assets-beginning of year	536,236,931	432,656,827
Plan net assets-end of year	$ 607,174,063	$ 536,236,931

See accompanying notes.

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2004 and 2003

Note 1: Plan Description

The Arkansas Local Police and Fire Retirement System (LOPFI) maintains a defined benefit pension plan for local police officers and firefighters hired by the respective local governmental unit after January 1, 1983. LOPFI is an agent PERS responsible for the operation and maintenance of the plan in accordance with Act 364 of the 1981 Arkansas General Assembly. As of December 31, 2004 and 2003, the number of participating city government employers was 323 and 305 respectively. At that date membership consisted of the following:

Membership classification	Number of employees 2004	2003
Retirees and beneficiaries currently receiving benefits:		
LOPFI police without social security	68	59
Local plan police without social security	344	319
LOPFI police with social security	200	160
LOPFI policemen benefit program 2 without social security	3	
LOPFI fire without social security	56	47
LOPFI fire with social security	1	1
Local plan fire without social security	562	509
LOPFI volunteer fire	218	135
Local volunteer fire	277	170
Local plan police with social security	84	49
LOPFI volunteer police	8	2
LOPFI firemen benefit program 2-with social security	1	1
LOPFI policemen benefit program 2-with social security	2	
LOPFI firemen benefit program 2 without social security	2	
Subtotal for retirees and beneficiaries	1,826	1,452
Active employees:		
Local police with social security	3	
LOPFI police with social security	1,552	1551
LOPFI police without social security	1,039	1166
Local plan police without social security	16	18
LOPFI firemen with social security	33	18
LOPFI firemen without social security	1,687	1811
Local plan firemen without social security	31	35
LOPFI volunteer firemen	4,351	4031
Local plan volunteer firemen	25	26
LOPFI volunteer police	55	55
LOPFI firemen benefit program 2 with social security	25	16
LOPFI firemen benefit program 2 without social security	269	77
LOPFI policemen benefit program 2 without social security	330	31
LOPFI police benefit program 2 with social security	31	178
Subtotal for active employees	9,447	9,013
Total membership	11,273	10,465

Included in the above figures for 2004 and 2003 respectively are 1,290 and 1,126 members of the local fire and police pension plans now administered by LOPFI. LOPFI has absorbed both the old plan

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2004 and 2003

Note 1: Plan Description (continued):
assets and management responsibilities. The benefits of these members are the same as under the local plan legislation. The employee contribution rate depends on the type of service being rendered and whether or not the service is also covered by social security. The different employee contribution rates are:

a. Paid service not covered by social security: 6% of gross pay
b. Paid service also covered by social security: no employee contribution
c. Volunteer service: no employee contribution
d. Paid service-benefit program 2: 6% of gross pay

The employer contribution rate is adjusted automatically every year to reflect changes in the composition of the employee group and other factors which affect cost. Contributions are determined on an actuarial basis in order to insure that the individual system employers can honor their benefit commitments to covered employees. An individual entry age actuarial cost method of valuation is used in determining normal cost. Because LOPFI is an agent PERS, contribution rates vary from unit to unit, but are all actuarially computed.

Benefit Program 1: Pension benefits to a member with five or more years of credited service in force who has attained his normal retirement age consists of an annuity equal to the following:

(a) For each year of paid service resulting from employment in a position not also covered by social security, 2.5% of his final average pay (2.2% for those with retirement date prior to July 1, 2003); plus
(b) For each year of paid service resulting from employment in a position also covered by social security, 1.5% of his final average pay (1.2% for those with retirement date prior to July 1, 2003). In addition, if such member is retiring and if such member's age at retirement is younger than social security's minimum age for an unreduced retirement benefit, then such member receives a temporary annuity equal to 1% of his final average pay for each such year of paid service. Such temporary annuity terminates at the end of the calendar month in which the earliest of the following events occur: such member's death; or his attainment of such social security minimum age for unreduced benefits.
(c) In no event will the total of (a) plus (b) exceed, at time of retirement, 80% of such final average pay; plus
(d) Effective July 1, 2004, for each year of volunteer service, $5.09 per month, to a maximum of $203.60 monthly; Effective July 1, 2003, $5.00 per month, to a maximum of $200.00.
(e) Before the date that the first payment of his annuity becomes due, but not thereafter, a member may elect in writing to receive his annuity as a life annuity or he may elect to have his life annuity reduced but not any temporary annuity which may be payable, and nominate a beneficiary in accordance with the provisions of one of four options. If a member does not elect an option, his annuity shall be paid to him as a life annuity.

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2004 and 2003

Note 1: Plan Description (continued)

Benefit Program 2: For each year of paid service rendered on or after the election date of Benefit 2 and resulting from employment in a position not also covered by social security, 3% of his or her final average pay, plus for each year of paid service rendered on or after the election date of Benefit Program 2 and resulting from employment in a position also covered by social security, 2.5% of his or her final average pay.

A member will receive disability benefits computed in the same manner as normal retirement benefits if the member has 5 or more years of credited service and terminates employment because of becoming permanently disabled from non-duty related causes. If the disability is determined to be duty related, a benefit is received regardless of the amount of service. Effective July 1, 2001, the duty related disability benefit is 65% of the member's final average pay. Prior to that date, the benefit was computed as if the member had completed 25 years of service.

Deferred Retirement Option Plan (DROP)

During 1993 the Arkansas General Assembly passed legislation (Acts 757 and 1004) allowing paid policemen and firefighters to elect to continue working for a period of ten and five years respectively past normal retirement age. This deferred retirement option plan ("DROP") is only available to participants having at least 20 years of service and is a local plan option. The DROP member continues his payroll withholding, the employee's contribution is credited accordingly to law to the defined benefit pension plan and the DROP, and the monthly benefits that would have been payable had the member elected to cease employment and receive a service retirement shall be paid into a separate DROP account. At final termination of employment, the employee is paid the balance in his DROP account. At December 31, 2004 and 2003, the DROP accounts totaled $ 9,405,193 and $7,611,236 respectively.

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

LOPFI prepares its financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed; expenses are recorded when the corresponding liabilities are incurred; and benefits and refunds are recognized when due and payable.

Furniture and Equipment

Furniture and equipment are capitalized at cost when acquired. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over useful lives of 3 to 10 years for equipment and furniture, and 30 years for buildings. Depreciation expense for 2004 and 2003 was $50,361 and $33,159 respectively.

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters (continued)

Cash and Investment Collateralization

Cash balances represent both operating cash accounts held by banks and investment cash held on deposit with the investment custodian. All operating cash accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. By using the "sweep account" concept, cash balances each night are transferred into an investment trust money market account collateralized as other investments. The bank has pledged pooled U. S. Government Agency Obligations held at the Federal Reserve Bank for all amounts held in trust.

Method Used to Value Investments

Per GASB No. 25, and effective for 1997, the investments are stated at fair value and are priced by the investment custodian using the last trade price information as supplied by various price data vendors. At December 31, 2004 and 2003, the System did not have investments in any one organization, other than those issued by the U. S. government, which represented greater than five percent of plan net assets.

Categories of Asset Risks

Government Accounting Standards Board Statement Number 3 requires disclosure of investment securities within the following three categories of credit risk. Category 1 includes investments that are insured or registered or which are held by the System or its agents in the System's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust departments or agent in the System's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, its trust department, or agent but not in the System's name. All investments of the System are classified as Category 2. The invested securities lending collateral, as well as open ended mutual funds, are not considered securities, and are not categorized for custodial credit risk.

Securities Lending Program

The board of trustees' investment policy permits the pension trust funds to participate in a securities lending program. Securities lending provides an additional investment option by enhancing current income sources. Under this program, collateralized loans of certain securities are made to eligible broker/dealers who participate in the securities lending program. In turn, the borrower pays a predetermined fee to the lender.

As custodian for the pension trust funds, Regions Bank provides securities lending services through a partnership with The Bank of New York. The Bank of New York initiated its U.S. lending program in 1977 and its non-U.S. lending program in 1988. As Lending Agent, The Bank of New York requires loans to be collateralized for 102% of market value plus accrued interest for fixed income securities and 102% of market value for equities. Both cash and U.S. Government securities are acceptable collateral. All loans are marked-to-market daily to ensure that the margin is properly maintained

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2004 and 2003

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters (continued)
Securities Lending Program (continued)
for the duration of the loan, thereby reducing marginal price risk. At December 31, 2004, the term to maturity of the securities lent is matched with the term to maturity of the investment of the cash collateral. These loans can be terminated on demand by either the lender or borrower. LOPFI cannot pledge or sell non-cash collateral unless the borrower defaults. As of December 31, 2004 and 2003 LOPFI had lending arrangements outstanding with a total market value for securities lent of $111,206,448 and $66,789,121; and a total market value for securities received as collateral of $113,424,971 and $68,118,143, respectively, resulting in no credit risk to LOPFI.

Under the indemnified program, The Bank of New York is responsible for the replacement of the lender's securities that are not returned as a result of a borrower's insolvency, performing daily marks-to-market, ensuring proper collateralization, and compliance with reinvestment guidelines.

Securities lending revenue is shared on a percentage basis between the lender, LOPFI, and the lending agent, The Bank of New York, net of rebates. As a result, there is an incentive for the lending agent to maximize lending earnings. The split is applicable for both positive and negative earnings and there are no hidden fees associated with the program. In addition, The Bank of New York does not charge any money management fee on the reinvestment of cash collateral. Under the current agreement, LOPFI receives 70% of the net securities lending revenue with The Bank of New York receiving 30%. Regions Bank, the custodian, does not receive any revenue from this securities lending arrangement. The net income earned from securities lending was $145,670 for 2004 and $42,775 for 2003.

Note 3: Contributions and Reserves
The respective units of local government are obligated by State law to make all required contributions to the LOPFI plan. The required contributions are expressed as a percentage of covered payroll and are actuarially determined using an individual entry age actuarial cost method. Costs of administering the plan is financed from the assets of the pension trust funds.
State law specifies net assets be segregated into the following reserves:

	2004	2003
Member's Deposit Account	$ 73,713,959	$ 65,884,717
Employer Accumulation Account	306,247,714	245,217,341
Retirement Reserve Account	217,807,197	217,523,637
Income-Expense Account	0	0
Deferred Retirement Option Plan	9,405,193	7,611,236
	$ 607,1174,063	$ 536,236,931

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2004 and 2003

Note 4: Commitments and Contingencies
Improvements to Office Building
LOPFI has purchased an office building, which it intends to occupy during 2005. The Plan had entered into construction contracts totaling $ 2.3 million at December 31, 2004.

Pending Litigation
The former executive director of LOPFI has filed a lawsuit in Federal District Court alleging wrongful termination. The termination occurred during 2003, and the lawsuit was filed in 2004 subsequent to the date of these financial statements. She seeks reinstatement of her position and an unspecified amount of compensatory damages as well as punitive damages. She has named the System (LOPFI) as well as each of the Board of Trustees individually as defendants. Attorneys for LOPFI have stated that it appears that there is no insurance coverage for the alleged action. LOPFI has filed a motion to dismiss the action and will vigorously contest the lawsuit in Federal Court. Due to the fact that there is no monetary range for the liability and that the outcome is in question, it is impossible to determine the effect on the current financial statements, and therefore no liability and related expense has been recorded.

Note 5: Employee Pension Program
LOPFI employees are covered by the Arkansas Public Employee Retirement Systems (APERS). The plan is a defined benefit plan covering all of the employees of LOPFI. LOPFI's contributions to the plan on behalf of its employees were $28,730 for 2004 and $30,579 for 2003.

Note 6: Restatement of Total Assets and Liabilities
LOPFI began utilizing a securities lending program during 2003. The cash collateral of $66,651,500 and liability of the same amount were left off of the statement of plan net assets for 2003. There is no effect on plan net assets at December 31, 2003.

Arkansas Local Police and Fire Retirement System

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (d)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/95	$ 166,697,056	$ 184,722,940	$ 18,025,884	90%	$ 92,609,526	19%
12/31/96*	200,004,954	242,501,504	42,496,550	82	114,814,558	37
12/31/97	242,849,773	279,592,905	36,743,132	87	129,797,633	28
12/31/98*+	295,664,808	328,182,052	32,517,244	90	135,372,764	28
12/31/99*	361,113,458	369,233,854	8,120,396	98	136,976,242	6
12/31/00*	425,122,202	416,222,207	(8,899,995)	102	142,778,723	-
12/31/01*	481,431,953	428,840,581	(52,951,372)	112	152,883,342	-
12/31/02	515,600,263	534,533,175	18,932,912	96	163,420,616	12
12/31/03 +	553,057,228	620,393,297	67,336,069	89	181,429,964	37
12/31/04*	601,798,909	754,004,285	152,205,376	80	193,586,972	79

* After legislated benefit increases for LOPFI members
+ After changes in actuarial assumptions

Schedule of Employer Contributions

Fiscal year ending	Annual Required Contribution	Percent Contributed
12/31/95	$ 11,795,077	100%
12/31/96	14,650,814	100%
12/31/97	16,402,732	100%
12/31/98	18,221,992	100%
12/31/99	19,522,826	100%
12/31/00	22,321,326	100%
12/31/01	22,420,300	100%
12/31/02	18,261,057	100%
12/31/03	16,346,749	100%
12/31/04	26,925,018	100%

Note to the required supplementary information

Actuarial methods & assumptions for valuation performed December 31, 2004

The entry age normal actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest) which are expressed as a percent of payroll. The amortization period used for the December 31, 2004 valuations was 30 years using a level percent open method. The actuarial value of assets is based on a five year smoothed market method. The investment return rate used is 8% per year. The inflation rate assumed is 4% per year. Projected salary increase assumptions are based on 4% to 9.6% increases and a wage inflation rate of 4% per year. A cost of living adjustment (COLA) is based on a 3% compound escalator for the LOPFI plan only. A number of local plans under LOPFI administration have guaranteed post-retirement benefit increases.

See accompanying Independent Auditor's Report.

Arkansas Local Police and Fire Retirement System

Schedule of Administrative and Investment Expenses

Years ended December 31, 2004 and 2003

	2004	2003
Personnel Services		
Staff salaries	$ 180,204	$ 286,590
Social security tax	20,528	26,113
Staff retirement plan contribution	28,730	30,579
Health insurance	35,794	39,129
Unemployment insurance	960	4,089
Total personnel services	266,216	386,500
Professional Services		
Actuarial services	160,600	173,275
Professional accounting services	7,600	6,200
Legal consultation	101,408	72,000
Data processing	222,834	176,592
Medical advisor	33,999	18,417
Total professional services	526,441	446,484
Communications		
Printing	16,035	27,228
Telephone	5,279	5,780
Postage	15,387	20,674
Meetings and travel	15,482	22,145
Total communications	52,183	75,827
Miscellaneous		
Insurance-bond and property	48,669	20,914
Office rent	39,048	38,298
Office equipment rent	5,164	2,821
Depreciation	50,361	30,159
Publications	898	2,288
Office supplies	7,953	7,333
Other Miscellaneous	4,571	11,245
Interest paid to Pension Review Board	33,019	21,424
Total miscellaneous	189,683	134,482
Total administrative expenses	1,034,523	1,043,293
Investment expenses		
Investment manager fees	2,391,617	2,269,604
Custodial fees	220,509	199,052
Investment consulting fee	136,767	87,144
Investment monitoring fee	34,080	34,080
Total investment expenses	2,782,973	2,589,880
Total administrative and investment expenses	$ 3,817,496	$ 3,633,173

See accompanying Independent Auditor's Report.

Arkansas Local Police and Fire Retirement System

Schedule of Actual versus Budgeted Expenses

Year ended December 31, 2004

	Budgeted	Actual	Favorable (Unfavorable)
Personnel Services (7)	357,109	266,216	90,893
Professional Services			
Actuarial services	170,700	160,600	10,100
Professional accounting services	7,800	7,600	200
Legal consultation (2)	72,000	101,408	(29,408)
Data processing	224,700	222,834	1,866
Medical advisor (3)	31,000	33,999	(2,999)
Total professional services	506,200	526,441	(20,241)
Communications			
Printing	22,500	16,035	6,465
Telephone	8,500	5,279	3,221
Postage	19,500	15,387	4,113
Meetings and travel	24,500	15,482	9,018
Total communications	75,000	52,183	22,817
Miscellaneous			
Insurance-bond and property (5)	45,600	48,669	(3,069)
Office rent	40,287	39,048	1,239
Office equipment and land acquisition costs	20,900		20,900
Office equipment rent (6)	4,100	5,164	(1,064)
Depreciation	50,631	50,361	270
Publications	1,900	898	1,002
Office supplies	9,800	7,953	1,847
Other miscellaneous	5,100	4,571	529
Interest paid to Pension Review Board (8)	24,630	33,019	(8,389)
Total miscellaneous	202,948	189,683	13,265
Total administrative expenses	1,141,257	1,034,523	106,734
Investment expenses			
Investment manager fees	2,995,150	2,391,617	603,533
Custodial fees (4)	185,000	220,509	(35,509)
Investment consulting fee (1)	125,000	136,767	(11,767)
Investment monitoring fee	35,440	34,080	1,360
Total investment expenses	3,340,590	2,782,973	557,617
Total administrative and investment expenses	$4,481,847	$3,817,496	$ 664,351

(1) Investment consulting fees are higher due to the increase in market value of investments.
(2) Legal services were higher due to the cost of co-counsel in the Federal Court case.
(3) Medical advisor costs were higher due to the increased number of disability cases.
(4) Custodial fees were higher due to higher volume of trading activity coupled with higher market values.
(5) Insurance expense was higher due to higher than anticipated premium increases.
(6) Equipment leasing and maintenance was higher due to the cost of updating internal control procedures in the network to aide in the Legislative Audit review.
(7) Personnel Services were lower due to LOPFI operating without an Assistant Director during 2004.
(8) Interest paid to the Pension Review Board was higher due to a higher return on investments than was anticipated.

See accompanying Independent Auditor's Report.