Arkansas Local Police and Fire Retirement System
(LOPFI)

Financial Statements and Additional Information

Years ended December 31, 2005 and 2004

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, 2005 and 2004 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, 2005 and 2004 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 - 6 and the additional information on page 15 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 16 and 17 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 27, 2006
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 2005 and 2004.

Arkansas Local Police and Fire Retirement System
Year ended December 31, 2005

Summary of Comparative Statements of Plan Net Assets

	As of December 31, 2005	As of December 31, 2004	Percent Change
Cash and short-term investments	$ 26,220,967	$ 13,872,704	89.01 %
Invested securities lending collateral	52,584,186	70,548,673	(25.46)
Total receivables	3,754,760	5,057,864	(25.76)
Prepaid expense and other assets	92,236	84,706	8.89
Investments	613,978,776	587,921,607	4.43
Land, building, furniture and equipment	4,146,570	1,608,496	157.78
Total assets	$ 700,777,495	$ 679,094,050	3.19
Accounts payable and accrued expenses	$ 550,411	$ 537,028	2.49
Refunds payable	45,825	75,069	(38.96)
Due to Pension Review Board	303,752	759,217	(59.99)
Collateral for securities on loan	52,584,186	70,548,673	(25.46)
Total liabilities	53,484,174	71,919,987	(25.63)
Net assets held for pension benefits	647,293,321	607,174,063	6.61
Total liabilities and net assets held for pension benefits	$ 700,777,495	$ 679,094,050	3.19 %

The increase in cash and short-term investments and the increase in investments reflect continuing improvement in financial markets. Investments were also bolstered by the consolidation of 11 Local Plans into LOPFI which brought $4.8 million in assets into the system. Total receivables were lower due to an increase in dollars received from the State Insurance Tax Turnback program resulting in fewer employer groups owing money at the end of the year. Prepaid expenses increased from a combination of an increase in fiduciary liability insurance paid in 2005 as well as the creation of an escrow account for the new LOPFI building. The increase in land, building, furniture and equipment reflect the completion of the renovation of the new LOPFI office building, and the subsequent relocation of the LOPFI office staff. Additional information on capital asset activity can be found 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 lower due decreased lending activity.

Arkansas Local Police and Fire Retirement System
Year ended December 31, 2005

Summary of Comparative Statements of Changes in Plan Net Assets

	Year ended December 31, 2005	Year ended December 31, 2004	Percent Change
Contributions	$ 46,821,836	$ 46,159,324	1.43 %
Net investment income	16,776,456	46,531,092	(63.95)
Total additions	63,598,292	92,690,416	(31.39)
Benefits paid	20,588,418	17,669,863	16.52
Refunds of contributions	882,766	1,278,586	(30.96)
Administrative expenses	1,177,624	1,034,523	13.83
Deferred retirement option distributions	830,226	1,770,312	(53.10)
Total deductions	23,479,034	21,753,284	7.93
Net increase in plan net assets	40,119,258	70,937,132	(43.44)
Plan net assets-beginning of year	607,174,063	536,236,931	13.22
Plan net assets-end of year	$ 647,293,321	$ 607,174,063	6.61 %

Contributions increased as a result of a 7.04% 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 11 Local Plans into LOPFI and also 25 new departments which adopted LOPFI coverage. For the second year in a row, 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 15.55% 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 increased in 2005 due to the filling of a one staff position which was vacant for all of 2004, as well as additional expense incurred when the staff relocated to the new LOPFI building. 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, 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	84,706	34,933	97.62
Investments	587,921,607	513,531,865	14.49
Land, building, furniture and equipment	1,608,496	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	71,919,987	68,121,855	(5.58)
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

Statement of Plan Net Assets

December 31, 2005 and 2004

	2005	2004
Assets		
Cash and short-term investments	$ 26,220,967	$ 13,872,704
Receivables:		
Contributions receivable	2,116,426	2,848,813
Accrued interest and dividends	1,627,745	2,143,950
Other receivables	10,589	65,101
Total receivables	3,754,760	5,057,864
Prepaid expense	73,496	69,035
Investments at fair value:		
U. S. Government and state obligations	109,214,012	135,813,613
Corporate obligations	43,236,090	28,710,180
Foreign bonds	1,525,251	1,233,077
Fixed income collective trusts	39,858,762	58,499,268
Common and preferred stocks	136,001,680	227,877,831
Equity mutual collective trusts	284,142,981	135,787,638
Total investments	613,978,776	587,921,607
Invested securities lending collateral	52,584,186	70,548,673
Land, building, furniture and equipment-at cost	4,146,570	1,608,496
Other assets	18,740	15,671
	$ 700,777,495	$ 679,094,050
Liabilities and net assets held in trust for pension benefits		
Liabilities:		
Accounts payable and accrued expenses	$ 550,411	$ 537,028
Refunds payable	45,825	75,069
Due to Pension Review Board	303,752	759,217
Collateral for securities on loan	52,584,186	70,548,673
Total liabilities	53,484,174	71,919,987
Net assets held in trust for pension benefits:		
(See funding progress schedule on page 15.)	647,293,321	607,174,063
	$ 700,777,495	$ 679,094,050

See accompanying notes.

Arkansas Local Police and Fire Retirement System

Statement of Changes in Plan Net Assets

Years ended December 31, 2005 and 2004

	2005	2004
Additions:		
Contributions:		
Member contributions	$ 8,954,827	$ 7,611,322
Employer contributions	33,217,304	30,802,924
Local plan administrative mergers and paid military time	4,649,705	7,745,078
Total contributions	46,821,836	46,159,324
Investment income:		
Net increase in fair value of investments	8,474,902	39,440,790
Interest, dividends, and other income	11,276,593	9,727,605
Investment expenses	(3,193,249)	(2,782,973)
Total investing income before securities lending	16,558,246	46,385,422
From securities lending activity:		
Securities lending income	2,477,367	
Securities lending expenses:		
Borrower rebates	(2,215,822)	
Management fees	(64,575)	
Net income from securities lending activities	196,970	145,670
Total investment income	16,755,216	46,531,092
Total additions	63,577,052	92,690,416
Deductions:		
Benefits paid	20,588,418	17,669,863
Refunds of contributions	882,766	1,278,586
Administrative expenses	1,156,384	1,034,523
Deferred retirement option distributions	830,226	1,770,312
Total deductions	23,457,794	21,753,284
Net increase in plan net assets	40,119,258	70,937,132
Plan net assets-beginning of year	607,174,063	536,236,931
Plan net assets-end of year	$ 647,293,321	$ 607,174,063

See accompanying notes.

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2005 and 2004

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, 2005 and 2004, the number of participating political subdivisions was 334 and 323 respectively. At that date membership consisted of the following:

Membership classification	Number of employees 2005	2004
Retirees and beneficiaries currently receiving benefits:		
LOPFI police without social security	75	68
Local plan police without social security	346	344
LOPFI police with social security	241	200
LOPFI policemen benefit program 2 without social security	4	3
LOPFI fire without social security	73	56
LOPFI fire with social security	4	1
Local plan fire without social security	573	562
LOPFI volunteer fire	262	218
Local volunteer fire	411	277
Local plan police with social security	96	84
LOPFI volunteer police	9	8
LOPFI firemen benefit program 2-with social security	2	1
LOPFI policemen benefit program 2-with social security	4	2
LOPFI firemen benefit program 2 without social security	10	2
Subtotal for retirees and beneficiaries	2,110	1,826
Active employees:		
Local police with social security	5	3
LOPFI police with social security	1,620	1,552
LOPFI police without social security	1,065	1,039
Local plan police without social security	10	16
LOPFI firemen with social security	36	33
LOPFI firemen without social security	1,780	1,687
Local plan firemen without social security	30	31
LOPFI volunteer firemen	4,635	4,351
Local plan volunteer firemen	16	25
LOPFI volunteer police	69	55
LOPFI firemen benefit program 2 with social security	26	25
LOPFI firemen benefit program 2 without social security	279	269
LOPFI policemen benefit program 2 without social security	351	330
LOPFI police benefit program 2 with social security	35	31
Subtotal for active employees	9,957	9,447
Terminated Vested Members	1,724	1,292
Total membership	13,791	12,565

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2005 and 2004

Note 1: Plan Description (continued):
Included in the above figures for 2005 and 2004 respectively are 1,487 and 1,342 members of the local fire and police pension plans now administered by LOPFI. LOPFI has absorbed both the old plan assets and 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, 2.7% 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, 1.7% 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, 2005, for each year of volunteer service, \$5.26 per month, to a maximum of \$210.40 monthly; Effective July 1, 2004, \$5.09 per month, to a maximum of \$203.60.
(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, 2005 and 2004

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, 3.1% 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, 2.6% 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. 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, 2005 and 2004, the DROP accounts totaled $ 11,082,611 and $9,405,193 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 when due and pursuant to formal commitments, as well as statutory or contractual requirements; 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. The threshold for capitalization is $1,000. 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 2005 and 2004 was $102,944 and $50,361 respectively.

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2005 and 2004

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, 2005 and 2004, 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.

Ratings Dispersion Detail

Credit Rating Level	Corporate and Foreign Bonds	Mortgage Obligations
Agencies		$97,455,462
AAA or better	$ 40,039,801	
BBB to B or unrated	4,721,540	
Total	$ 44.761,341	$97,455,462

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.

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2005 and 2004

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

Securities Lending Program

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 for the duration of the loan, thereby reducing marginal price risk. At December 31, 2005 and 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, 2005 and 2004 LOPFI had lending arrangements outstanding with a total market value for securities lent of $72,198,930 and $111,206,448; and a total market value for securities received as collateral of $74,214,185 and $113,424,971, 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 $196,970 for 2005 and $145,670 for 2004.

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 either the contributions or investment income. State law specifies net assets be segregated into the following reserves:

	2005	2004
Member's Deposit Account	$ 82,458,955	$ 73,713,959
Employer Accumulation Account	291,954,962	306,247,714
Retirement Reserve Account	261,796,793	217,807,197
Income-Expense Account	0	0
Deferred Retirement Option Plan	11,082,611	9,405,193
	$ 647,293,321	$ 607,174,063

Arkansas Local Police and Fire Retirement System

Notes to the Financial Statements

December 31, 2005 and 2004

Note 4: Commitments and Contingencies
Improvements to Office Building
LOPFI occupied an office building during 2005 that it purchased in 2004. The Plan had entered into construction contracts estimated to total $ 2.3 million at December 31, 2004. Actual improvements made in 2005 were approximately $2.6 million.

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. APERS board of trustees sets the contribution percentage that entities will contribute on behalf of the entity's employees. Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full benefits (1) at age sixty-five with five years of actual service, (2) at any age with twenty-eight years of service, or (3) under the contributory plan, at age sixty with twenty years of actual service, or under the non-contributory plan, at age fifty-five with thirty-five years of credited service. The normal retirement benefit is determined by the member's final average salary and the number of years of service. A member may retire with a reduced benefit at age fifty-five with at least five years of actual service or any age with twenty-five years of actual service. LOPFI's contributions to the plan on behalf of its employees were $38,683 for 2005 and $28,730 for 2004.

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
12/31/05	636,316,197	823,038,981	186,722,784	77	207,342,091	90

* 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%
12/31/05	30,184,341	100%

Note to the required supplementary information

Actuarial methods & assumptions for valuation performed December 31, 2005

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, 2005 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, 2005 and 2004

	2005	2004
Personnel Services		
Staff salaries	$ 212,765	$ 180,204
Social security tax	24,469	20,528
Staff retirement plan contribution	38,683	28,730
Health insurance	42,007	35,794
Unemployment insurance	770	960
Total personnel services	318,694	266,216
Professional Services		
Actuarial services	179,000	160,600
Professional accounting services	7,800	7,600
Legal consultation	103,138	101,408
Data processing	202,713	222,834
Medical advisor	32,570	33,999
Total professional services	525,221	526,441
Communications		
Printing	31,623	16,035
Telephone	9,598	5,279
Postage	12,866	15,387
Meetings and travel	13,340	15,482
Total communications	67,427	52,183
Miscellaneous		
Insurance-bond and property	66,039	48,669
Office rent	22,652	39,048
Office equipment rent	3,791	5,164
Depreciation	102,944	50,361
Publications	1,031	898
Office supplies	9,948	7,953
Other Miscellaneous	2,226	4,571
Interest paid to Pension Review Board	36,411	33,019
Total miscellaneous	245,042	189,683
Total administrative expenses	1,156,384	1,034,523
Investment expenses		
Investment manager fees	2,781,844	2,391,617
Custodial fees	233,861	220,509
Investment consulting fee	151,544	136,767
Investment monitoring fee	26,000	34,080
Total investment expenses	3,193,249	2,782,973
Total administrative and investment expenses	$ 4,349,633	$ 3,817,496

See accompanying Independent Auditor's Report.

Arkansas Local Police and Fire Retirement System

Schedule of Actual versus Budgeted Expenses

Year ended December 31, 2005

	Budgeted	Actual	Favorable (Unfavorable)
Personnel Services	368,200	318,694	49,506
Professional Services			
Actuarial services	190,000	179,000	11,000
Professional accounting services	8,000	7,800	200
Legal consultation (2)	87,000	103,138	(16,138)
Data processing	239,734	202,713	37,021
Medical advisor (3)	31,000	32,570	(1,570)
Total professional services	555,734	525,221	30,513
Communications			
Printing (5)	30,400	31,623	(1,223)
Telephone (6)	8,500	9,598	(1,098)
Postage	19,500	12,866	6,634
Meetings and travel	26,900	13,340	13,560
Total communications	85,300	67,427	17,873
Miscellaneous			
Insurance-bond and property	65,900	66,039	(139)
Office rent (7)	44,680	22,652	22,028
Office equipment and furniture	120,785		120,785
Office equipment rent	5,900	3,791	2,109
Depreciation	102,944	102,944	-
Publications	2,700	1,031	1,669
Office supplies (5)	9,800	9,948	(148)
Other miscellaneous	5,100	2,226	2,874
Interest paid to Pension Review Board	17,964	36,411	(18,447)
Total miscellaneous	375,773	245,042	130,731
Total administrative expenses	1,385,007	1,156,384	228,623
Investment expenses			
Investment manager fees	2,771,142	2,781,844	(10,702)
Custodial fees (4)	190,000	233,861	(43,861)
Investment consulting fee (1)	140,000	151,544	(11,544)
Investment monitoring fee	26,000	26,000	-
Total investment expenses	3,127,142	3,193,249	(66,107)
Total administrative and investment expenses	$4,512,149	$4,349,633	$ 162,516

(1) Investment consulting fees are higher due to the increase in trading activity.
(2) Legal services were higher due to the lawsuit involving former Executive Director.
(3) Medical advisor costs were higher due to the higher than anticipated number of disability cases.
(4) Custodial fees were higher due to higher volume of trading activity.
(5)Printing was higher due to the office relocation to a new address.
(6) Cost of website was higher than expected.
(7)Office rent is lower due to purchase of office building during 2005.

See accompanying Independent Auditor's Report.