Principal Financial Group

Principal Life
Insurance Company

September 12, 2007

Personal & Confidential
Don Ray
City of Jonesboro, Arkansas
515 West Washington
P.O. Box 1845
Jonesboro, AR 72401-2782

RE Retirement Plan for Employees of City of Jonesboro, Arkansas
Annuity Contract No: 4-49993

Dear Don

I have enclosed your January 1, 2007 Actuarial Valuation Report. This report provides information you need to determine your pension plan contribution.

Please make checks payable to Principal Life Insurance Company. Be sure to note the 2007 plan year on the check stub or correspondence included with each deposit.

I have also enclosed your GASB 25 Financial Accounting Disclosure Report for the year ending December 31, 2006. This report provides the disclosure information needed to comply with the Governmental Accounting Standards Board Statement 25 and 40. You may also wish to forward a copy of this report to your accountant or auditor.

If you decide to modify any numbers shown in this report, please let me know. This allows us to provide accurate information next year.

If you have any questions about these reports, please contact me at the number below.
Thank you.

Sincerely
Donna Day
Assistant Pension Actuarial Analyst
Retirement Actuarial Services
Phone (515) 247-5886
Fax (515) 248-0455

Enclosures

cc Richard S. Darouse
Rae T. Willis
Heather Black
Russell Anthofer

Deposit Overview

Retirement Plan for Employees of City of Jonesboro, Arkansas 4-49993

Plan Year Beginning 01/01/2007

This overview is a summary of deposit information shown in your actuarial valuation report. It will help you determine your current year contribution to your retirement plan. You may deposit any amount in excess of your annual required contribution. Refer to your actuarial valuation report, Section III–Deposit Information, for this calculation.

Annual Required Contribution	**Your annual required contribution is $512,673.** This is the amount needed to keep your plan currently funded.
Deposits Received	We have not received any deposits for the 2007 plan year as of 08/27/2007.
Additional Information	For additional information, please see the 2007 actuarial valuation report.

Retirement Plan for Employees of City of Jonesboro, Arkansas
4-49993

Actuarial Valuation Report

For the plan year January 1, 2007 through December 31, 2007

WE'LL GIVE YOU AN EDGE℠

This actuarial valuation report is for your defined benefit retirement plan. It gives you the amounts needed to fund the benefits described in your plan document. This report is based on employee data and other information you provide us.

Amounts in this report are not what you need for your financial statements. Upon request, we will prepare another report for your accounting disclosure.

Funding Method

Defined benefit plans, as the name suggests, define the benefits given to employees. Your goal is to have enough funds to pay for these benefits. To do this, we use a funding method. It sets the yearly deposit needed to pay for your plan's benefits.

Assumptions

We use assumptions to estimate how much funding you'll need for benefits. For instance:

- How much interest will your funds earn?
- How many employees will leave the plan?
- What will be employees' future salaries?
- How many employees will become disabled?

Deposit levels change when actual events differ from what was assumed. To see the assumptions used for your plan, refer to Section VII of this report.

Using This Report

We give you a minimum deposit level. Your deposit may have to be more than this to fund upcoming benefits. We'll advise you if you need to fund at a higher level. For a summary of these results refer to Section II. More detailed information is found in the remaining sections of this report.

Actuarial Certification

To the best of my knowledge, this report is complete and accurate. It complies with all relevant pension actuarial standards and legal requirements.

In preparing this report, I have relied on (1) information provided by the plan sponsor and (2) plan documents and plan asset information on file with Principal Life Insurance Company. Appropriate tests of reasonableness and accuracy have been made.

In my opinion, each assumption used in combination represents my best estimate of anticipated experience under the plan. Each assumption used is reasonable (taking into account the experience of the plan and reasonable expectations), or would, in the aggregate, result in a total contribution equivalent to that which would be determined if each such assumption were reasonable.

I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

9/10/2007
Date

Gregory W. Gosselink, EA, MAAA
Retirement Actuarial Services
Principal Financial Group
Des Moines, IA 50306-9394
(515) 248-2293

This summary is for Retirement Plan for Employees of City of Jonesboro, Arkansas. It includes:

- Annual required contribution for the plan year ending 12/31/2007
- Deposit options
- Changes recognized in this report
- Analysis of results

Deposit Information

A summary of the results of the actuarial valuation is as follows:

Total normal cost	$454,027
Total normal cost as a percentage of member compensation	6.54%
Annual required contribution	512,673

Deposit Options

The table below explains the effects of depositing at different levels. The impact on next year's costs is based on all actuarial assumptions being met. Costs will vary based on actual plan experience and timing of deposits.

If you deposit	You will
Less than $512,673	➢ Increase your next year's annual required contribution.
Exactly $512,673	➢ Meet your annual required contribution.
More than $512,673	➢ Exceed your annual required contribution. ➢ Decrease next year's annual required contribution.

Deposits Received

We used $504,064 in deposits received after 12/31/2006 for your 2006 plan year. Since these deposits have been used for the prior plan year, additional deposits will be required to meet your 2007 annual required contribution. See Section IV - Plan Assets for a list of the 2006 plan year deposits.

We have not yet received any deposits for the current plan year as of 08/27/2007.

Plan Changes

This report reflects changes in maximum benefit limits under Internal Revenue Code (IRC) Section 415 and in maximum compensation limits under IRC Section 401. This change had only a minor impact on plan costs.

Assumption Changes

While completing this valuation, we reviewed the actuarial assumptions. This report includes the following assumption changes:

- The mortality table has been updated to the RP-2000 Combined Mortality Table projected to 2005.
- We adjusted the withdrawal assumption to reflect past experience and the expected turnover for future years.

The assumptions used are shown in Section VII. We redetermined plan liabilities as of the start of the plan year for the assumption changes. See Section IX for the effects of this change.

Analysis

During the last year, your plan experienced an actuarial gain of $360,208. This gain was due to the retirement of 5 employees, less than expected salary increases, and better than expected return on investments.

For Additional Information

For additional information you may contact your valuation analyst, Donna Day, by:

- Phone – 1-800-543-4015 extension 75886, or 515-247-5886
- Email – day.donna@principal.com

You may also contact your local Principal Financial Group Retirement Services sales office.

Normal Cost

	01/01/2007	01/01/2006
Total normal cost	$454,027	$419,246
Annual member compensation	6,942,529	6,144,454
Total normal cost as a percentage of member compensation	6.54%	6.82%

Deposit Levels

			01/01/2007	01/01/2006
Annual Required Contribution	a)	Employer normal cost	$454,027	$419,246
	b)	Amortization amounts	22,878	49,651
	c)	Valuation interest to the end of the plan year on a and b	35,768	35,167
	d)	Annual required contribution (a+b+c)	$512,673	$504,064

	Actuarial Value	Market Value
Principal Life Insurance Company Accounts		
Flexible Pension Investment (FPI) grouped accounts	$5,682,963	$5,682,963
Value of deposit received 01/16/2007 and applied to the plan year ending 12/31/2006	504,064	504,064
Total Value	$6,187,027	$6,187,027

This valuation includes the retired lives under the benefit index option of your contract. The market value of assets for this retired life liability is $2,238,801.

Development of Normal Cost

Normal cost is the portion of cost assigned to each year. Under the entry age normal cost method used in this valuation, each member's annual cost is calculated as described in Section VII - Actuarial Assumptions and Methods. The sum of the annual costs for all members plus an estimate of plan expenses to be paid from the fund is the total normal cost for the year.

a)	Normal cost	$425,080
b)	Estimated expenses	28,947
c)	Total normal cost (a+b)	$454,027

Schedule of Amortization Bases

Your cost method allocates a portion of plan funding to be amortized in equal annual installments, rather than to be paid through future normal costs. The minimum period over which the bases are amortized are described by law or regulations.

Date Created	Reason	Outstanding Balance	30 Year Amortization	10 Year Amortization
01/01/2007	Unfunded Actuarial Accrued Liability	$290,465	$22,878	$39,364

Unfunded Actuarial Accrued Liability

a)	Unfunded actuarial accrued liability (as of 01/01/2006)	$630,378
b)	Changes made during the plan year	0
c)	Employer normal cost (as of 01/01/2006)	419,246
d)	Interest on the above items	78,721
e)	Total (a+b+c+d)	$1,128,345
f)	Employer contributions	$504,064
g)	Interest on employer contributions	0
h)	Total (f+g)	$504,064
i)	Expected unfunded actuarial accrued liability (as of 01/01/2007) (e-h)	$624,281
j)	Actuarial accrued liability	$6,451,100
k)	Actuarial value of assets	6,187,027
l)	Actual unfunded actuarial accrued liability (as of 01/01/2007) (actuarial accrued liability less actuarial value of assets) (j-k)	$264,073
m)	Actuarial (gain) or loss (actual less expected unfunded actuarial accrued liability) (l-i)	$(360,208)
n)	Increase due to a benefit change	864
o)	Increase due to change in assumptions	25,528
p)	Redetermined actual unfunded actuarial accrued liability (as of 01/01/2007) (l+n+o)	$290,465

Employer contributions include $504,064 received 01/16/2007 and applied to the plan year ending 12/31/2006.

Census Data

The census data is based on data supplied by the plan sponsor.

	Active Participants		Inactive Participants	
Age Group	Number	Projected Monthly Pension [1]	Number	Monthly Pension
Under 25	14	$105,872		
25 - 29	23	160,577	2	$86
30 - 34	13	75,985	3	33
35 - 39	38	166,047	7	815
40 - 44	29	88,870	3	443
45 - 49	28	62,756	1	
50 - 54	34	53,173	1	751
55 - 59	24	21,216	3	775
60 - 64	9	8,170	4	2,386
65 & over	8	2,232	1	201
Totals	220	$744,898	25	$5,490

[1] Projected monthly pension was calculated on the assumption that employees would experience annual compensation increases. Benefit amounts have been calculated at normal retirement age (current age if later).

Retired Participants

Age Group	Number	Monthly Benefit
60 - 64	10	$4,845
65 - 69	15	4,159
70 - 74	8	4,035
75 - 79		
80 - 84		
85 & over		
Totals	33	$13,039

Emerging Retirement Liability

This page is provided to help you evaluate your asset liquidity needs. For this purpose, the charges shown can be compared to the market value of the funds in your contract, less the current benefit index. As of the current anniversary date, this amount is $3,069,005.

Plan Year Beginning	Number Retiring	Projected Monthly Benefit	Expected Charge to Assets	Cumulative Charges
01/01/2007	6	$1,874	$433,949	$433,949
01/01/2008	3	4,062	968,691	1,402,640
01/01/2009	3	1,051	244,367	1,647,007
01/01/2010	3	1,518	358,478	2,005,485
01/01/2011	5	1,832	432,743	2,438,228
01/01/2012	4	4,457	1,097,315	3,535,543
01/01/2013	5	3,718	899,931	4,435,474
01/01/2014	5	3,244	773,794	5,209,268
01/01/2015	2	1,149	275,873	5,485,141
01/01/2016	11	10,325	2,483,730	7,968,871

Number retiring recognizes only those who have benefits that will commence in that year.

Projected monthly benefit was calculated using the salary scale shown on the assumption page of this report.

Expected charge to assets is an estimate of the benefit index allocation to your contract. This display is based on the benefit index rates and your investment mix as of the current anniversary date. Since both of these may change from time to time, you should consider these amounts estimates.

Actuarial Valuation Assumptions

	01/01/2007	01/01/2006
Valuation Interest (net of investment expenses)		
Preretirement	7.50%	7.50%
Postretirement	7.50%	7.50%
Interest Rate For Employee Accumulations	5.51%	5.39%
Mortality		
Preretirement	RP-2000 Combined Mortality Table, male and female, projected to 2005 with scale AA.	1983 Group Annuity Table, male and female.
Postretirement	RP-2000 Combined Mortality Table, male and female, projected to 2005 with scale AA.	1983 Group Annuity Table, male and female.
Expenses	A dollar estimate of administrative expenses is included in normal cost.	A dollar estimate of administrative expenses is included in normal cost.
Salary Scale	4.50% increase each year until retirement.	4.50% increase each year until retirement.
Retirement Age	Normal retirement age as defined in Summary of Plan Provisions.	Normal retirement age as defined in Summary of Plan Provisions.
Disability	None.	None.

Withdrawal

2003 Society of Actuaries Small Plan Age Table, multiplied by .60.

Selected rates of withdrawal are shown below:

Age	Rate of withdrawal	Age	Rate of withdrawal
20	14.58%	40	5.64%
25	11.70%	45	4.38%
30	9.30%	50	3.36%
35	7.26%	55	2.52%

V Table from August 1992 Pension Forum published by the Society of Actuaries, multiplied by 0.75.

Selected rates of withdrawal are shown below:

Age	Rate of withdrawal	Age	Rate of withdrawal
20	13.95%	40	4.88%
25	10.20%	45	4.13%
30	7.58%	50	3.38%
35	5.93%	55	0.00%

The actuarial valuation assumptions used in this report differ from those used in the previous report. This year we updated the withdrawal and mortality table assumptions. These assumptions were changed to better reflect the anticipated experience of your plan. The interest rate used for employee contributions is 120% of the Federal Mid Term Rate. .

Actuarial Methods

	01/01/2007	01/01/2006
Actuarial cost method	Entry age normal	Entry age normal
Actuarial value of assets		
Principal Life Insurance Company accounts		
FPI grouped accounts	Market value	Market value
Deposits after the plan year end	Deposits received in the current plan year, but applied to the prior plan year, are included in assets at their face value.	Deposits received in the current plan year, but applied to the prior plan year, are included in assets at their face value.
Retirees	Assets and liabilities for retirees who receive monthly (guaranteed and non-guaranteed) benefits from plan assets are included in your valuation.	Assets and liabilities for retirees who receive monthly (guaranteed and non-guaranteed) benefits from plan assets are included in your valuation.

Description of Actuarial Cost Method
Entry Age Normal

Ultimate Cost

The ultimate cost of your pension plan is:
- Benefit payments
- Plus expenses
- Less investment income

This cost can't be determined until the last benefit has been paid. Regardless of which actuarial cost method is used, the ultimate cost remains the same.

Cost Methods

A cost method is a budgeting tool. It helps to ensure that your pension plan is adequately and systematically funded. Cost methods differ based on how they assign an annual cost to the current year and how they treat gains and losses.

Normal Cost

The portion of cost assigned to each year is called the normal cost. The normal cost may be shared by the employer and the employees based on plan provisions.

Entry Age Normal

The entry age normal cost method is used for this valuation. This method estimates the total cost of all projected plan benefits based on the assumptions shown in this report and the participant data you have supplied.

Costs are spread evenly from a member's date of hire to assumed retirement age. This annual cost is spread as a level percentage of compensation if benefits are salary related or as a level dollar amount if not salary related. The sum of each member's annual cost is the normal cost.

There are some accumulated costs for past years. The value of these past costs is the actuarial accrued liability (AAL). Each year the unfunded actuarial accrued liability (UAAL) is the AAL less the actuarial value of assets, but not less than zero. The UAAL is adjusted when there are plan or assumption changes (a liability base is created).

Actuarial Gains/Losses

An actuarial gain or loss occurs when actual plan experience differs from what was assumed. The actuarial gain or loss is calculated separately and is amortized in accordance with the Internal Revenue Code.

The following is a summary of plan provisions and does not alter the intent or meanings of the provisions contained in the contract or plan document.

Plan Eligibility

Class:	Any full-time employee (other than an elected official, uniformed police officer, or firefighter) who is employed for more than 20 hours per week and more than five months per year.

Normal Retirement Benefit

Age:	Attained age 65.
Service:	Five years of accrual service
Form:	Monthly annuity payable for ten years certain and life thereafter (optional forms may be elected in advance of retirement).
Amount (accrued benefit):	1.5% of average compensation multiplied by accrual service.

Minimum Benefit: $25 monthly accrued benefit.

Early Retirement Benefit

Age:	Attained age 55.
Service:	Five years of accrual service
Form:	Same as normal retirement benefit.
Amount:	Accrued benefit on early retirement date reduced by 6 7/10% for each year up to five and 3 3/10% for each year between five and ten that the early retirement date precedes normal retirement date.

Late Retirement Benefit

Age:	No maximum age.
Form:	Same as normal retirement benefit.
Amount:	Accrued benefit on late retirement date

Termination Benefit

Vesting percentage:	100% after five years of vesting service.
Form:	Same as normal retirement benefit with income deferred until normal retirement date.
Amount:	The greater of the accrued benefit multiplied by the vesting percentage or the participant's contribution account as of date of termination.

Single Sum Death Benefit

Form:	Cash payment.
Amount:	Participant's contribution account as of date of death.

Definitions

Average Compensation:	The monthly average of total pay received for the five compensation years prior to normal retirement date.
Participant's Contribution Account:	Participant's contributions accumulated to date of determination with interest.
Optional Forms of Benefit Payments	The optional forms of benefit payments are: ➢ Monthly annuity payable for life or 10 years certain and life ➢ Monthly annuity payable as a survivorship life annuity with survivorship percentages of 50, 75, or 100 ➢ Single sum payment equal to the Required Contribution Account of the retirement benefit

Present Value of Accumulated Plan Benefits

Present value of vested and nonvested accrued benefits are based on the **valuation assumptions** shown in Section VII of this report (salary scale, if any, is not included in the calculation of accrued benefits). If the valuation includes retirees under the floor or benefit index option of the plan's funding arrangement, then those liabilities are also included below. This information may be used for Statement of Financial Accounting Standards No. 35 (SFAS35). These amounts should not be used for other purposes such as estimating plan termination sufficiency.

	01/01/2007	01/01/2006
Present Value of Vested Benefits		
Retired members	$1,549,479	$1,163,531
Inactive members	352,887	183,212
Active members	2,144,316	2,102,409
Total	$4,046,682	$3,449,152
Present Value of Nonvested Benefits		
Inactive members	$0	$0
Active members	171,953	175,599
Total	$171,953	$175,599
Total Present Value of Accumulated Plan Benefits	$4,218,635	$3,624,751

The following changes have had these effects, on an annual basis, as of the valuation date:

	Normal Cost	Unfunded Actuarial Accrued Liability	Present Value of Vested Benefits	Present Value of Nonvested Benefits
Plan Amendment	$170	$864	$0	$0
Assumptions	(11,264)	25,528	90,007	2,581

Change in Present Value of Accumulated Plan Benefits

Present Value of Accumulated Plan Benefits as of 01/01/2006	$3,624,751
Increase (decrease) during the year due to:	
Increase for interest due to decrease in the discount period	271,856
Benefits paid	(139,261)
Benefits accumulated and plan experience	368,701
Change in assumptions	92,588
Plan amendment	0
Method changes	0
Present Value of Accumulated Plan Benefits as of 01/01/2007	$4,218,635

Carryforward of Net Pension Obligation:

a)	Annual required contribution for 2006 plan year	$504,064
b)	Interest on net pension obligation	0
c)	Adjustment to annual required contribution	0
d)	Annual pension cost for 2006 plan year (a+b-c)	504,064
e)	Actual contributions made	504,064
f)	Increase/(decrease) in net pension obligation	0
g)	2006 beginning of year net pension obligation	0
h)	2006 end of year net pension obligation	$0

Annual Pension Cost for 2007 Plan Year:

a)	Normal cost with interest	$488,079
b)	Amortization with interest	24,594
c)	Annual required contribution (a+b) but not less than zero	512,673
d)	Interest on net pension obligation	0
e)	Adjustment to annual required contribution	0
f)	Annual pension cost (c+d-e)	$512,673

Calculation of Net Pension Obligation

(a) Year	(b) Val'n Rate	(c) Amort. Period	(d) ARC	(e) Interest On NPO (l py x b)	(f) ARC Adjust. (l py / g)	(g) Amort. Factor (c yrs @ b%)	(h) APC (d+e-f)	(i) Actual Deposit	(j) Loss/ (Gain) (d-i)	(k) Change In NPO (h-i)	(l) NPO Balance (l py+k)
1997	7.00%	30	159,583	-	-	-	159,583	159,583	0	0	0
1998	7.00%	30	166,472	0	0	12.4090	166,472	166,472	0	0	0
1999	7.00%	30	455,620	0	0	12.4090	455,620	455,620	0	0	0
2000	7.00%	30	458,013	0	0	12.4090	458,013	458,013	0	0	0
2001	7.00%	30	497,337	0	0	12.4090	497,337	497,337	0	0	0
2002	7.50%	30	514,037	0	0	11.8104	514,037	514,037	0	0	0
2003	7.50%	30	581,770	0	0	11.8104	581,770	581,770	0	0	0
2004	7.50%	30	481,229	0	0	11.8104	481,229	481,229	0	0	0
2005	7.50%	30	459,814	0	0	11.8104	459,814	459,814	0	0	0
2006	7.50%	30	504,064	0	0	11.8104	504,064	504,064	0	0	0
2007	7.50%	30	512,673	0	0	11.8104	512,673				

This statement, which is provided by Principal Life Insurance Company, is complete and accurate according to the best of our knowledge. This statement should be reviewed by the employer for accuracy and agreement with their records.

Governmental Accounting Standards Board Statement 25 (GASB 25) and GASB 40 Information

Retirement Plan for Employees of City of Jonesboro, Arkansas

GA 4-49993

Statement of Plan Net Assets
as of December 31

		2006	2005
Assets:			
Cash	(Cash and cash equivalents) Checking/Savings account	$0.00	$0.00
	Total Cash	$0.00	$0.00
Investments			
Insurance contracts at contract value			
	Available for nonretired lives	$49,284.31	$115,949.83
	Reserved for retired lives	32,051.51	58,450.40
Unallocated Separate Accounts at Fair Value		3,395,003.16	3,042,898.98
Allocated Separate Accounts at Fair Value		2,206,830.67	1,533,605.35
Total Investments		5,683,169.65	4,750,904.56
	Total Assets	$5,683,169.65	$4,750,904.56
Liabilities:			
Accrued administrative expense		$0.00	$0.00
	Total Liabilities	$0.00	$0.00
Net assets available for benefits		$5,683,169.65	$4,750,904.56

Retirement Plan for Employees of City of Jonesboro, Arkansas

GA 4-49993

Statement of Changes in Plan Net Assets
For the Year Ended December 31

	2006	2005
Additions:		
Contributions		
Members' contributions	0.00	0.00
Employer contributions	459,814.00	481,229.00
Investment Income		
Contract Investment Income	$2,360.45	$3,574.17
Dividend Income	0.00	0.00
Net appreciation/(depreciation) in fair value of investments	638,299.05	542,977.13
Total additions	$1,100,473.50	$1,027,780.30
Deductions:		
Pension payments	$139,261.20	$115,888.65
Refund terminated members' contributions	0.00	2,671.61
Administrative expenses	23,666.90	20,108.01
Other expenses	5,280.31[1]	874.74[1]
Other Deductions	0.00[2]	129.07[2]
Total deductions	$168,208.41	$139,672.08
Net increase/(decrease)	$932,265.09	$888,108.22
Fund Balance on January 1	$4,750,904.56	$3,862,796.34
Fund Balance on December 31	$5,683,169.65	$4,750,904.56

[1] Payment for Fund Selection Service
[2] Price error adjustment

Retirement Plan for Employees of City of Jonesboro, Arkansas

GA 4-49993

Notes To Financial Statements

1. **Description of Plan:**

A. **General**

The City of Jonesboro, Arkansas Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of the city ordinance. The plan is governed by the City of Jonesboro which may amend plan provisions, and which is responsible for the management of plan assets. The City of Jonesboro has delegated the authority to manage certain plan assets to Principal Life Insurance Company.

B. **Plan Membership**

As of January 1, 2006 and 2007, the pension plan's membership consisted of:

	2007	2006
Active employees	220	188
Retirees and beneficiaries currently receiving benefits	33	28
Terminated employees entitled to benefits but not yet receiving them	25	23
Total	278	239

C. **Benefit Provisions**

As of January 1, 2007, the pension plan provides for retirement and other benefits as shown in Appendix IV of this report.

2. **Summary of Significant Accounting Policies:**

A. **Basis of Accounting**

The plan's policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

2. Summary of Significant Accounting Policies: (continued)

B. Valuation of Investments

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits or administrative expense charged by the Principal Life Insurance Company.

The pension plan's unallocated separate accounts are valued at fair value.

C. Contributions

Active members are no longer required to contribute to the plan. Any remaining obligation with respect to the pension plan shall be paid by the employer.

Investment expenses, including investment manager and custodial services, are funded through investment earnings.

Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

D. Investments That Represent Five Percent or More of Net Assets Available For Benefits

At December 31, 2006, the following are investments (other than U.S. Government and U.S. Government guaranteed obligations), in any one organization, that represent five percent or more of net Assets available for benefits ($5,683,169.65 x .05 = $284,158.48):

Principal Financial Group	$5,683,169.65

2. Summary of Significant Accounting Policies: (continued)

E. Deposits And Investments

The Governmental Accounting Standards Board in Statement No. 3 (GASB 3), as amended by Governmental Accounting Standards Board in Statement No. 40 (GASB 40) requires state and local governments to disclosure certain risks associated with the plan's deposits and investments.

Deposits
At December 31, 2006, the plan held no deposits.

Investments
Interest Rate Risk. At December 31, 2006, the city had the following investments. Amounts are shown in dollars. Modified duration is shown in years.

	Fair Value	Effective Duration
Fixed Income Investment Options		
Principal Bond and Mortgage Separate Account	$1,554,285.32	4.70
Principal Inflation Protection Separate Account	109,683.78	6.23
Principal High Yield Separate Account	112,087.63	3.20
Principal Preferred Securities Separate Account	111,622.05	5.38
Total Fair Value of Fixed Income Investment Options	$1,887,678.78	
Other Investments	3,795,490.87	
Total Investments	$5,683,169.65	

For more performance information, including most recent month-end performance, visit the Principal Sponsor Service Center or the Principal Retirement Service Center at www. Principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Credit Risk. Separate accounts held at The Principal Financial Group are commingled pools, rather than individual securities. As a result, these accounts are not rated.

Accounts held at The Principal Financial Group are not subject to concentration of credit risk, custodial credit risk or foreign currency risk.

Required Supplementary Information

Schedule of Funding

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The historical information required to be disclosed, beginning as of January 1, 2002* is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL As a % of Payroll [(2) – (1)]/(5)
01/01/2002	$2,200,215	$3,463,819	$1,263,604	64%	$4,639,027	27%
01/01/2003	2,385,079	3,920,694	1,535,615	61%	5,159,811	30%
01/01/2004	3,444,655	4,418,008	973,353	78%	5,167,425	19%
01/01/2005	4,340,642	5,025,796	685,154	86%	5,424,118	13%
01/01/2006	5,208,383	5,838,761	630,378	89%	6,144,454	10%
01/01/2007	6,187,027	6,477,492	290,465	96%	6,942,529	4%

* Actuarial Valuations prior to 01/01/2002 were provided by another carrier.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the accrued liability as a factor. (See page 8 for Significant Factors Affecting Schedules.)

Analysis of the dollar amount of the actuarial value of assets, accrued liability and unfunded (assets in excess of) accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the accrued liability (column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) accrued liability and annual covered payroll are both affected by inflation. Expressing unfunded (assets in excess of) accrued liability as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the accrued liability, the higher the bracketed percentage, the stronger the plan.

Required Supplementary Information-Continued

Schedule of Employer Contributions

The following table provides an analysis of funding progress for the last 6 years:

Plan Year End	Annual Required Contribution	Actual Contribution	Percentage Contributed
12/31/2001	$497,337	$497,337	100%
12/31/2002	514,037	514,037	100%
12/31/2003	581,770	581,770	100%
12/31/2004	481,229	481,229	100%
12/31/2005	459,814	459,814	100%
12/31/2006	504,064	504,604	100%

Required Supplementary Information-Continued

Notes To Required Schedules

A. Actuarial Assumption And Methods

The actuarial accrued liability was determined as part of an actuarial valuation at January 1, 2007, the most recently filed actuarial valuation report.

This report was based upon the plan's actuarial assumptions, asset valuation method, and cost method described in Appendix I, II, and III.

The amortization method used is Level Dollar over a Closed Period. The weighted average remaining period is 30 years.

B. Significant Factors Affecting Schedules

No changes occurred in the actuarial valuation assumptions, plan benefits, actuarial cost method, or procedures affecting the comparability of costs since the January 1, 2007 plan year.

Actuarial Valuation Assumptions

	01/01/2007	01/01/2006
Valuation Interest (net of investment expenses)		
Preretirement	7.50%	7.50%
Postretirement	7.50%	7.50%
Interest Rate For Employee Accumulations	5.51%	5.39%
Mortality		
Preretirement	RP-2000 Combined Mortality Table, male and female, projected to 2005 with scale AA.	1983 Group Annuity Table, male and female.
Postretirement	RP-2000 Combined Mortality Table, male and female, projected to 2005 with scale AA.	1983 Group Annuity Table, male and female.
Expenses	A dollar estimate of administrative expenses is included in normal cost.	A dollar estimate of administrative expenses is included in normal cost.
Salary Scale	4.50% increase each year until retirement.	4.50% increase each year until retirement.
Retirement Age	Normal retirement age as defined in Summary of Plan Provisions.	Normal retirement age as defined in Summary of Plan Provisions.
Disability	None.	None.

Withdrawal

2003 Society of Actuaries Small Plan Age Table, multiplied by .60.

Selected rates of withdrawal are shown below:

Age	Rate of withdrawal	Age	Rate of withdrawal
20	14.58%	40	5.64%
25	11.70%	45	4.38%
30	9.30%	50	3.36%
35	7.26%	55	2.52%

V Table from August 1992 Pension Forum published by the Society of Actuaries, multiplied by 0.75.

Selected rates of withdrawal are shown below:

Age	Rate of withdrawal	Age	Rate of withdrawal
20	13.95%	40	4.88%
25	10.20%	45	4.13%
30	7.58%	50	3.38%
35	5.93%	55	0.00%

The actuarial valuation assumptions used in this report differ from those used in the previous report. This year we updated the withdrawal and mortality table assumptions. These assumptions were changed to better reflect the anticipated experience of your plan. The interest rate used for employee contributions is 120% of the Federal Mid Term Rate. .

Actuarial Methods

	01/01/2007	01/01/2006
Actuarial cost method	Entry age normal	Entry age normal
Actuarial value of assets		
Principal Life Insurance Company accounts		
FPI grouped accounts	Market value	Market value
Deposits after the plan year end	Deposits received in the current plan year, but applied to the prior plan year, are included in assets at their face value.	Deposits received in the current plan year, but applied to the prior plan year, are included in assets at their face value.
Retirees	Assets and liabilities for retirees who receive monthly (guaranteed and non-guaranteed) benefits from plan assets are included in your valuation.	Assets and liabilities for retirees who receive monthly (guaranteed and non-guaranteed) benefits from plan assets are included in your valuation.

Description of Actuarial Cost Method
Entry Age Normal

Ultimate Cost

The ultimate cost of your pension plan is:
- Benefit payments
- Plus expenses
- Less investment income

This cost can't be determined until the last benefit has been paid. Regardless of which actuarial cost method is used, the ultimate cost remains the same.

Cost Methods

A cost method is a budgeting tool. It helps to ensure that your pension plan is adequately and systematically funded. Cost methods differ based on how they assign an annual cost to the current year and how they treat gains and losses.

Normal Cost

The portion of cost assigned to each year is called the normal cost. The normal cost may be shared by the employer and the employees based on plan provisions.

Entry Age Normal

The entry age normal cost method is used for this valuation. This method estimates the total cost of all projected plan benefits based on the assumptions shown in this report and the participant data you have supplied.

Costs are spread evenly from a member's date of hire to assumed retirement age. This annual cost is spread as a level percentage of compensation if benefits are salary related or as a level dollar amount if not salary related. The sum of each member's annual cost is the normal cost.

There are some accumulated costs for past years. The value of these past costs is the actuarial accrued liability (AAL). Each year the unfunded actuarial accrued liability (UAAL) is the AAL less the actuarial value of assets, but not less than zero. The UAAL is adjusted when there are plan or assumption changes (a liability base is created).

Actuarial Gains/Losses

An actuarial gain or loss occurs when actual plan experience differs from what was assumed. The actuarial gain or loss is calculated separately and is amortized in accordance with the Internal Revenue Code.

The following is a summary of plan provisions and does not alter the intent or meanings of the provisions contained in the contract or plan document.

Plan Eligibility

Class:	Any full-time employee (other than an elected official, uniformed police officer, or firefighter) who is employed for more than 20 hours per week and more than five months per year.

Normal Retirement Benefit

Age:	Attained age 65.
Service:	Five years of accrual service
Form:	Monthly annuity payable for ten years certain and life thereafter (optional forms may be elected in advance of retirement).
Amount (accrued benefit):	1.5% of average compensation multiplied by accrual service.

Minimum Benefit: $25 monthly accrued benefit.

Early Retirement Benefit

Age:	Attained age 55.
Service:	Five years of accrual service
Form:	Same as normal retirement benefit.
Amount:	Accrued benefit on early retirement date reduced by 6 7/10% for each year up to five and 3 3/10% for each year between five and ten that the early retirement date precedes normal retirement date.

Late Retirement Benefit

Age:	No maximum age.
Form:	Same as normal retirement benefit.
Amount:	Accrued benefit on late retirement date

Termination Benefit

Vesting percentage:	100% after five years of vesting service.
Form:	Same as normal retirement benefit with income deferred until normal retirement date.
Amount:	The greater of the accrued benefit multiplied by the vesting percentage or the participant's contribution account as of date of termination.

Single Sum Death Benefit

Form:	Cash payment.
Amount:	Participant's contribution account as of date of death.

Definitions

Average Compensation: The monthly average of total pay received for the five compensation years prior to normal retirement date.

Participant's Contribution Account: Participant's contributions accumulated to date of determination with interest.

Optional Forms of Benefit Payments: The optional forms of benefit payments are:

- Monthly annuity payable for life or 10 years certain and life
- Monthly annuity payable as a survivorship life annuity with survivorship percentages of 50, 75, or 100
- Single sum payment equal to the Required Contribution Account of the retirement benefit