

**Firefighters' Retirement System
2013
Consolidated Financial Report**



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LETTER OF TRANSMITTAL



December 1, 2013

**Board of Trustees
Firefighters' Retirement System
3100 Brentwood Drive
Baton Rouge, Louisiana 70809**

I am pleased to present the Financial Report of the Firefighters' Retirement System (FRS) for the fiscal year ended June 30, 2013. My office is responsible for the management of the system, which was established on January 1, 1980 by Act. No. 434 of 1979. All invested funds, cash, and property are held in the name of FRS for the sole benefit of the membership.

This report was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the system. In addition, management is responsible for maintaining a system of adequate internal controls. The controls are designed to serve the following purposes: (1) To provide reasonable assurance that transactions are recorded as necessary, (2) To maintain the accountability for assets, and (3) To permit the preparation of financial statements in accordance with generally accepted accounting principles.

Plan Characteristics

FRS is a cost sharing, multiple-employer, governmental defined benefit pension plan, established by the state legislature on January 1, 1980, to provide retirement and other benefits for Louisiana firefighters. A ten member board of trustees governs FRS.

Controls

In accordance with the board's and management's goals and policies, FRS maintains a system of internal controls to reasonably assure that assets are properly safeguarded, resources are efficiently and economically employed, and financial information is reliable and accurate. To achieve those objectives, FRS uses advanced computer technology, continuing education for staff, and numerous checks and balances within the control environment. An operating budget for administrative expenses is prepared each year by the staff to address member and employer needs while keeping costs reasonable. The board of trustees must review and approve the annual budget and any changes during the year. In addition to the trustees' approval, the budget must be reviewed by the Joint Legislative Committee on the Budget. An independent certified public accounting firm audits the financial statements to ensure that they conform to U.S. Generally Accepted Accounting Principles (GAAP) in all material respects. To assure independence, the independent auditor must be preapproved by the Office of the Legislative Auditor.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) begins on page 12 and provides an overview and analysis of FRS' basic financial statements. This letter of transmittal complements the MD&A and should be read in conjunction with it.

Investments

FRS is responsible for the prudent management of an investment portfolio with a market value of \$1.2 billion. Diversification to reduce risk is evident in the allocation of invested assets. FRS holds a wide range of investments such as domestic and international stocks, investment grade and high-yield bonds, and holdings in real estate and various hedge funds and private equity firms. In addition to these asset classes, FRS obtains diversification through various management styles including growth and value, size of company, and industry sectors. For fiscal 2013, FRS assets experienced a 9.4% return, net of fees, with three and five year averages of 7.5% and 1.7%, respectively. See the MD&A for a more detailed discussion of FRS' investment performance.

Last year FRS' investment portfolio experienced a return of -4.0%. This year, the capital markets rebounded and the FRS portfolio earned a 9.4% return. However, FRS is continuing to take reserves against the reported value of certain assets and, in some cases, working toward completely purging non-profitable assets from the portfolio. The action of reserving and purging, combined with the eventual subtraction of prior negative returns from the system's 5-year averaging method, should attain positive results.

Funding

The actuary determines the annual funding requirements needed to meet current and future benefit obligations. Calculations of contributions are based on the system's normal cost and amortization of the unfunded accrued liability. The employer contribution rate established by the Public Retirement Systems' Actuarial Committee (PRSAC)-

For 2012-2013 was as follows:

	<u>Above Poverty</u>	<u>Below Poverty</u>
Employee	10.00%	8.00%
Employer	24.00%	26.00%

And for 2013-2014 is as follows:

	<u>Above Poverty</u>	<u>Below Poverty</u>
Employee	10.00%	8.00%
Employer	28.25%	30.25%

And for 2014-2015 is projected to be as follows:

	<u>Above Poverty</u>	<u>Below Poverty</u>
Employee	10.00%	8.00%
Employer	29.5%	31.25%

The overwhelming majority of employees are paid a salary that exceeds the poverty rate so that means, for 2013, the overwhelming majority of employers are paying the 28.25% rate; and, in all likelihood, will be paying the projected 29.25% in 2014.

As of June 30, 2013, FRS was 71.13% funded compared to 71.66% as of June 30, 2012. The funded status was adversely impacted partly by the continued recognition of a portion of the losses from the fiscal year ended 2009 which are factored into FRS' 5-year averaging of investment returns (i.e., avg. 2009-2013). Net assets held in trust to pay pension benefits at June 30, 2013 totaled \$1.3 billion.

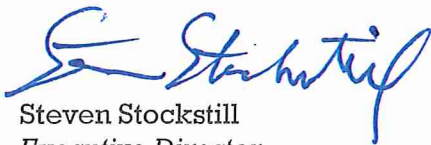
Key Developments and Highlights

Our efforts are first and foremost for the benefit of our participating employee and employer members. Every department at FRS works together to provide the high quality service that our participants deserve. Key developments are summarized below.

- Considering the foregoing, the system's total assets finished the year with a market value that continued to exceed the psychologically important \$1 billion mark.
- FRS' 3-year investment average reflects the health of the portfolio after the historic devaluation of capital markets that occurred in 2008 and 2009. That is the era of the double-dip recession and the worst economic conditions since the great depression. If the system's portfolio is measured after the historic 2008-2009 era, it shows an average annualized return of 7.5%, net of all fees. Using that measure, the overall health of the system's portfolio is good and equals the yearly target rate for earnings.

Acknowledgements and Considerations

The commitment to hard work demonstrated by the FRS staff made the preparation of this report possible. The FRS staff and I would like to thank the board of trustees for its support and dedication.



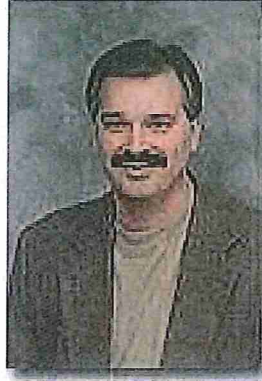
Steven Stockstill
Executive Director

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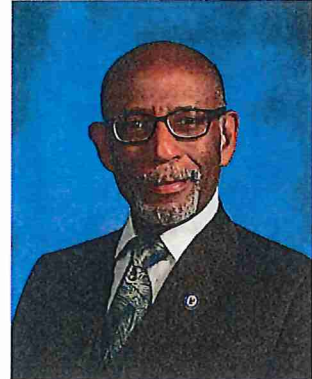
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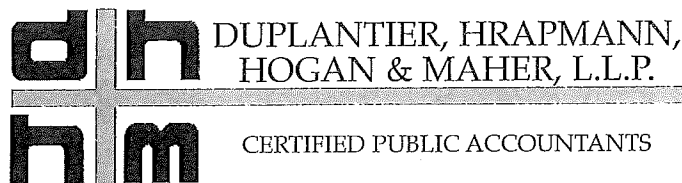
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INDEPENDENT AUDITOR'S REPORT

November 25, 2013

Board of Trustees of the
Firefighters' Retirement System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Firefighters' Retirement System (FRS) which comprise the consolidated statement of plan net position as of June 30, 2013 and the consolidated statement of changes in plan net position for the year ended June 30, 2013 and the related notes to the financial statements which collectively comprise FRS basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Firefighters' Retirement System as of June 30, 2013 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to management's discussion and analysis and the required supplementary information for the years ended 2010-2013 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The required supplementary information for the years ending June 30, 2008 and 2009 was audited by other auditors who did not express an opinion on it.

Other Information

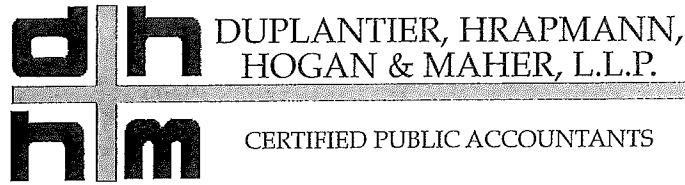
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 25, 2013 on our consideration of Firefighters' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Firefighters' Retirement System's internal control over financial reporting and compliance.

Duplantier, Chapman, Hogan and Thaler, LLP

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 25, 2013

Board of Trustees of the
Firefighters' Retirement System
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Firefighters' Retirement System and subsidiaries, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Firefighters' Retirement System's basic financial statements, and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Firefighters' Retirement System's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firefighters' Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Firefighters' Retirement System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material

misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Firefighters' Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Firefighters' Retirement System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Duplantier, Hapnana, Hogan and Maher, LLP

FIREFIGHTERS' RETIREMENT SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

The discussion and analysis of the Firefighters' Retirement System (FRS) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ended June 30, 2013. Please review it in conjunction with the Financial Statements which begin on page 21.

- ❖ FRS' net position restricted for pension benefits increased by \$130.0 million, or 11.6%.
- ❖ FRS' consolidated investment holdings increased \$192.0 million, or 19.4% from last year's value.
- ❖ The rate of return on the estimated fair value of FRS investments was 9.4%, net of fees in 2013 as compared to (4.0%) for 2012.
- ❖ The system's funded ratio decreased to 71.13% in 2013 from 71.66% in 2012.
- ❖ The unfunded actuarial accrued liability increased from \$482.0 million in 2012 to \$512.0 million in 2013, an increase of \$30.0 million or 6.2%.
- ❖ Contributions to FRS increased \$1.0 million year over year while benefit and disability payments increased \$6.1 million year over year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the FRS financial reporting which is comprised of the following components:

1. Basic financial statements
2. Notes to the basic financial statements
3. Required supplementary information
4. Other supplementary schedules

FIREFIGHTERS' RETIREMENT SYSTEM

The statement of plan net position reports the pension fund's assets, liabilities, and resulting net position restricted for pension benefits. It discloses the financial position of FRS as of June 30, 2013. The statement of changes in net position reports the results of the pension fund's operations during the year disclosing the additions to and deductions from the plan net position. The notes to the financial statements provide additional information and insight that is essential to gaining a full understanding of the data provided in the statements.

- ❖ Note 1 provides a general description of FRS, information regarding plan membership, and plan benefit provisions.
- ❖ Note 2 provides a summary of significant accounting policies and plan asset matters; including the basis of accounting; methods used to value investments; and methods used to value property and equipment.
- ❖ Note 3 provides information regarding required contributions, reserves and funding status.
- ❖ Note 4 provides information regarding member and employer contribution requirements.
- ❖ Note 5 describes investments, including a discussion of credit risk, interest rate risk and foreign currency risk.
- ❖ Note 6 provides information regarding notes receivable from merged systems.
- ❖ Note 7 provides a summary of the property and equipment of FRS including depreciation and net holding amounts.
- ❖ Note 8 provides a summary of the concentration of credit risks.
- ❖ Note 9 provides information regarding any potential contingencies of FRS.
- ❖ Note 10 provides a summary of current litigation.
- ❖ Note 11 describes additional valuation information.
- ❖ Note 12 describes outstanding notes receivable.

Required supplementary information consists of two schedules and related notes concerning actuarial information and the funded status of FRS. Other supplementary schedules include information on administrative expense and board compensation.

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENTS OF PLAN NET POSITION

TABLE 1
PLAN NET POSITION
(in thousands)

	<u>2013</u>	<u>2012</u>
Cash and Investments	\$1,272,309	\$1,071,689
Receivables	30,327	101,499
Capital Assets	765	783
Notes Receivable	2,850	3,029
Prepaid Expense and Other	974	1,070
Total Assets	\$1,307,225	\$1,178,070
Liabilities	22,942	16,031
Total Net Position	\$1,284,283	\$1,162,039
Non-Controlling Interest	(31,070)	(39,174)
Net Position Restricted for Pension Benefits	\$1,253,213	\$1,122,865

FRS' net position restricted for pension benefits increased \$130.3 million year over year. This increase was primarily comprised of a \$192.3 million increase in investments, an \$8.3 million increase in cash which was offset by a decrease in receivables of \$71.2 million.

CONSOLIDATED STATEMENTS OF CHANGES IN PLAN NET POSITION

TABLE 2
ADDITIONS TO PLAN NET POSITION
(in thousands)

	<u>2013</u>	<u>2012</u>
Contributions	\$ 90,210	\$89,203
Net Investment Income (Loss)	100,817	(48,259)
Legal Settlements	19,332	-
Other Operating Revenues	214	236
Total Additions	\$210,573	\$41,180

Additions to FRS' net position includes employer and member contributions, investment income, an allocation from the insurance premium tax fund, and legal settlements which increased \$169.4 million, or 411.3% year over year. Employer and employee contributions increased \$1.0 million and net investment income increased \$149.1 million year over year. During 2013, legal settlements provided \$19.3 million.

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENTS OF CHANGES IN PLAN NET POSITION (continued)

TABLE 3
DEDUCTIONS FROM PLAN NET POSITION
(in thousands)

	<u>2013</u>	<u>2012</u>
Retirement Benefits	\$70,531	\$64,733
Disability Benefits	5,017	4,743
Refunds	1,601	1,377
Net Transfers	201	(77)
Administrative Expenses	2,874	2,021
Total Deductions	\$80,224	\$72,797

Deductions from plan net position increased \$7.4 million or 10.2%. This increase was primarily due to an increase in benefit payments of \$6.1 million and an increase in administrative expenses of \$.9 million.

INVESTMENTS

FRS is responsible for the prudent management of funds held in trust for the exclusive benefit of our members' pensions. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Because investment income is vital to FRS' current and continued financial stability, trustees have a fiduciary responsibility to act prudently and discretely when making investment decisions.

The following table summarizes the approximate investment return by asset class for the years ended June 30, 2013 and June 30, 2012.

FIREFIGHTERS' RETIREMENT SYSTEM

INVESTMENTS – (continued)

TABLE 4
INVESTMENT RETURNS SUMMARY

	<u>2013</u>	<u>2012</u>
Equities		
US Large Cap	20.8%	4.8%
<i>SMID Cap</i>	22.5%	-.7%
Energy	24.6%	-25.0%
International Equity		
International Equity	15.5%	-16.4%
Global Equity		
Global Equity	25.1%	-8.6%
Fixed Income		
Core	0.7%	6.9%
Distressed Debt	29.5%	-12.5%
Emerging Markets	0.0%	3.0%
Alternatives		
Hedge Funds	15.2%	-2.76
Private Equity	9.2%	9.4%
Real Estate	12.3%	4.2%
TOTAL FUND	9.4%	-4.0%

FIREFIGHTERS' RETIREMENT SYSTEM

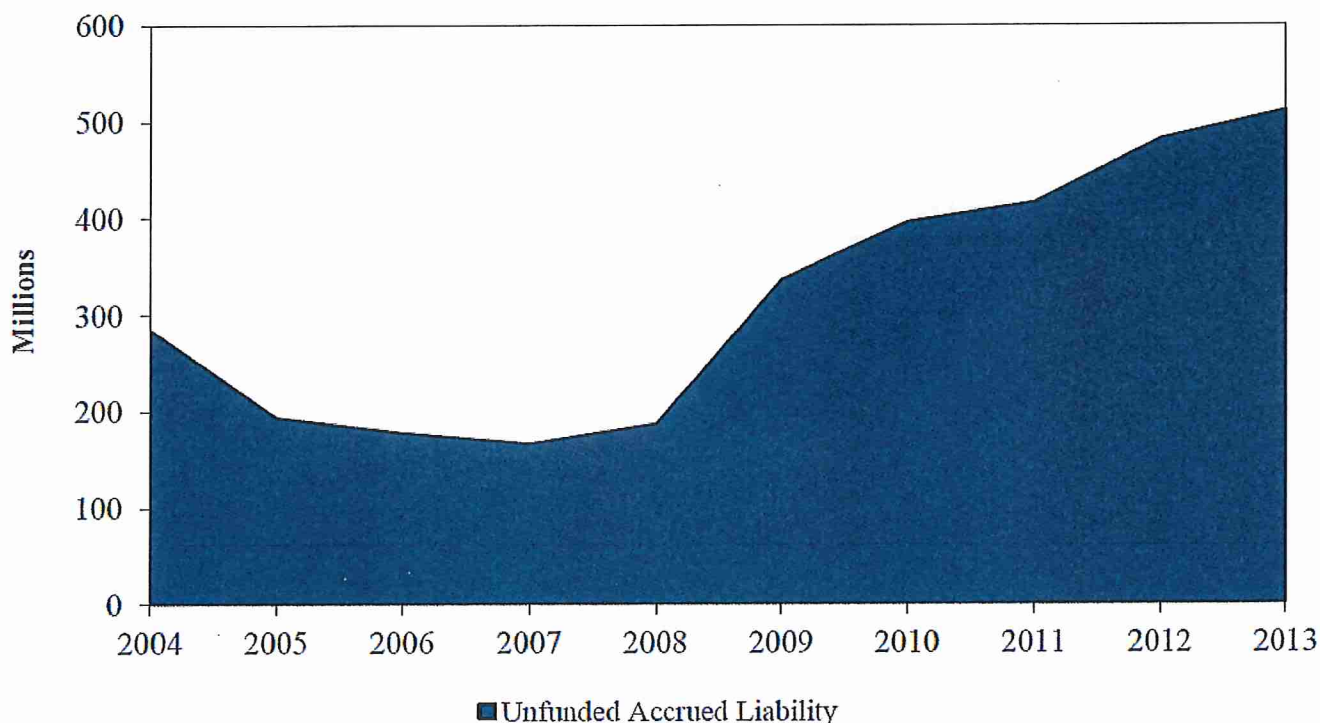
FUNDING STATUS

Of primary concern to most pension plan participants is the amount of money available to pay benefits. An actuarial valuation of assets and liabilities is performed annually.

An indicator of funding status is the ratio of the actuarial present value of the assets to the actuarial present value of future benefits when using the entry age normal method. An increase in this percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in the financial markets and the changes in the pension liabilities due to higher than anticipated raises or early retirement rates also have a significant impact on the funding status of the system.

The following chart shows the level of the unfunded accrued liability (in millions) over time. See the actuarial valuation for more information regarding the funded status of the system.

Unfunded Accrued Liability



FIREFIGHTERS' RETIREMENT SYSTEM

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, and system members with an overview of the system's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need financial information, please either visit our website at www.lafirefightersret.com or contact the FRS Controller, Layne McKinney, at 3100 Brentwood Drive, Baton Rouge, Louisiana 70809.

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FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENT OF PLAN NET POSITION

JUNE 30, 2013

ASSETS

Cash and cash equivalents	<u>\$ 90,053,942</u>
Receivables	
Employer	3,998,057
Employee	1,664,147
Interest and dividends	3,880,490
Forward currency contracts	17,350,947
Pending investments receivable	<u>3,432,850</u>
Total receivables	<u>30,326,491</u>
Investments at fair value	
Equities - domestic	248,951,933
Equities - foreign	131,280,755
Exchange traded funds	325,170
Corporate bonds – domestic	34,637,060
Corporate bonds - foreign	6,654,554
US Government agency bonds	16,153,278
Mutual funds	441,507,984
Asset backed securities	18,696,452
Private equity	65,823,357
Real estate	94,561,781
Hedge funds	112,200,242
Notes receivable	<u>11,462,589</u>
Total investments at fair value	<u>1,182,255,155</u>
Property, building, equipment and fixtures, net of accumulated depreciation of \$586,407	765,139
7% notes receivable from merged systems	2,850,291
Prepaid expenses and other	<u>974,094</u>
TOTAL ASSETS	<u><u>\$1,307,225,112</u></u>

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENT OF PLAN NET POSITION JUNE 30, 2013

LIABILITIES

Accounts payable	\$ 1,073,723
Foreign currency contracts	19,039,280
Investment payables	2,829,031
TOTAL LIABILITIES	<u>22,942,034</u>
TOTAL NET POSITION	1,284,283,078
Non-Controlling Interest	<u>(31,069,995)</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$1,253,213,083</u>

The accompanying notes are an integral part of this statement.

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENT OF CHANGES IN PLAN NET POSITION **FOR THE YEAR ENDED JUNE 30, 2013**

ADDITIONS:

Contributions:	
Employer	\$ 48,139,329
Employee	20,055,665
State appropriations from insurance premium taxes	<u>22,014,834</u>
Total contributions	90,209,828
Investment Income:	
Net appreciation in fair value of investments	91,049,676
Interest and dividends	31,364,092
Less investment expenses	<u>7,872,931</u>
Net investment income	114,540,837
Net income attributable to non-controlling interest	<u>(13,724,179)</u>
Net investment income attributable to Pension Fund	100,816,658
Interest from notes receivable	213,722
Legal Settlements	<u>19,332,333</u>
Total additions	<u>210,572,541</u>

DEDUCTIONS:

Retirement benefits	70,531,393
Disability benefits	5,017,056
Refunds to terminated employees	1,600,664
Transfers to (from) other systems	200,850
Administrative expenses	<u>2,874,043</u>
Total deductions	<u>80,224,006</u>
NET INCREASE	130,348,535

NET POSITION RESTRICTED FOR PENSION BENEFITS:

Beginning of year	<u>1,122,864,548</u>
End of year	<u>\$1,253,213,083</u>

The accompanying notes are an integral part of this statement.

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Notes to Consolidated Financial Statements

1. PLAN DESCRIPTION

The following brief description of the Firefighters' Retirement System (FRS or the System) is provided for general information purposes only. Participants should refer to the appropriate statutes for more complete information.

General

FRS is a cost sharing, multiple-employer, governmental defined benefit pension plan covering firefighters employed by any municipality, parish, or fire protection district of the State of Louisiana, under the provisions of Louisiana Revised Statutes 11:2251 through 2272, effective January 1, 1980. FRS is a tax qualified plan as determined by the Internal Revenue Service. Membership in FRS is a condition of employment for those full time firefighters who are employed by municipal, parish or fire protection districts and who earn more than \$375 per month.

Reporting Entity

FRS is not a component unit of the State of Louisiana Consolidated Annual Financial Report. The accompanying financial statements reflect the activity of the System.

Under Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units (GASB 39) (an amendment of GASB 14, *The Financial Reporting Entity*), the definition of a reporting entity is based primarily on the concept of financial accountability. In determining its component unit status, FRS administrators considered the following:

- ❖ FRS exists for the benefit of current and former firefighters who are members of the System;
- ❖ Four of the ten Board members are elected by the employees who participate in the System, and
- ❖ FRS is funded by the investment of contributions from the members and member employers who are obligated to make the contributions to FRS based upon actuarial valuations.

FRS itself has no component units as defined under GASB 39.

FRS was created by the State of Louisiana and is governed by a ten-member Board of Trustees (the Board). The Board is responsible for administering the assets of FRS and for making policy decisions regarding investments. Two of the Trustees are elected by the professional firefighters association, one Trustee is elected by the fire chiefs and, one is a retired firefighter. Two are appointed by the Louisiana Municipal Association. The remaining membership of the Board consists of one member from the State Treasurer's office, one from the Division of Administration and the chairmen of the Senate and House Retirement Committees.

Notes to Consolidated Financial Statements

1. PLAN DESCRIPTION (continued)

Plan Membership

Employer and employee membership data at June 30, 2013 is as follows:

Employer Members

Cities	64
Parishes	18
Special districts	<u>52</u>
Total employer members	<u>134</u>

Employee Members

Current retirees and beneficiaries	1,958
Drop participants	221
Terminated vested participants	71
Terminated due a refund	450
Active plan participants	<u>4,063</u>
Total employee members	<u>6,763</u>

Plan Benefits

Employees with 20 or more years of service who have attained age 50, or employees who have 12 years of service who have attained age 55, or 25 years of service at any age are entitled to annual pension benefits equal to 3 1/3% of their average final compensation based on the 36 consecutive months of highest pay multiplied by their total years of service, not to exceed 100%. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity.

If employees terminate before rendering 12 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to their employer's contributions. Benefits are payable over the employees' lives in the form of a monthly annuity. An employee may elect an unreduced benefit or any of seven options at retirement. The options are as follows:

1. At death, their beneficiary will receive a lump sum payment based on the present value of the employee's annuity account balance.
2. At death, their beneficiary will receive a life annuity equal to the employee's reduced retirement allowance.

Notes to Consolidated Financial Statements

1. PLAN DESCRIPTION (continued)

3. At death, their beneficiary will receive a life annuity equal to $\frac{1}{2}$ of the employee's reduced retirement allowance.
4. Any other benefit certified by the actuary and approved by the Board of Trustees that will be equivalent in value to the employee's retirement allowance limited to a spouse and/or minor children.
5. The member can select a reduced option 2 benefit. However, if the beneficiary predeceases the retiree, the benefit will convert to the maximum. This option is limited to a spouse and/or minor children or handicapped children.
6. The member can select a reduced option 3 benefit. However, if the beneficiary predeceases the retiree, the benefit will convert to the maximum. This option is limited to a spouse and/or minor children.
7. The member can select to receive a guaranteed 2 1/2% COLA every year beginning when the member reaches age 55. In exchange for this COLA, the member takes an actuarially reduced benefit upon retirement.

Death Benefits

If an active employee dies and is not eligible for retirement, his survivors shall be paid:

1. If the employee is not eligible to retire and dies in the line of duty, their spouse will receive monthly, an annual benefit equal to $\frac{2}{3}$ of the employee's average final compensation. If death is not in the line of duty, the spouse will receive monthly, an annual benefit equal to 3.0% of the member's average final compensation multiplied by his total years of service; however, the benefit shall not be less than 40.0%, or more than 60.0% of the employee's average final compensation.
2. Children of deceased employees will receive the greater of \$200 or 10.0% of the member's final average compensation per month until reaching the age of 18 or until the age of 22, if enrolled full time in an institution of higher education. The surviving totally physically handicapped or mentally retarded child of a deceased employee, regardless of age, shall receive the benefits as long as they are dependent on the surviving spouse.

Notes to Consolidated Financial Statements

1. PLAN DESCRIPTION (continued)

3. If an employee, who is eligible to retire, dies before retiring, the designated beneficiary shall be paid under option 2, survivor benefit equal to member's benefit.

Disability Benefits

If an eligible member is officially certified as disabled by the State Medical Disability Board, he shall receive the greater retirement, if eligible for disability benefits as follows:

1. Any member totally disabled from injury received in the line of duty, shall be paid, on a monthly basis, an annual pension of 60.0% of the average final compensation being received at the time of the disability.
2. Any member of the System who has become disabled or incapacitated because of continued illness or as a result of any injury received, even though not in the line of duty, and who has 5 years of creditable service, but is not eligible for retirement under the provisions of R. S. 11:2256 may apply for retirement under the provisions of R.S. 11:2258 and shall be retired on 75.0% of the retirement salary to which he would be entitled under R. S. 11:2256 if he were otherwise eligible there under 25.0% of the member's average salary, whichever is greater.
3. Any retired member or DROP plan participant who becomes disabled for any reason provided for by law shall be permitted to apply for conversion of a service retirement to a service connected disability retirement under R.S. 11:2258(B)(1)(e).
4. Should a member who is on disability retirement die and leave a surviving spouse, the surviving spouse shall receive a benefit of \$200 per month. When the member takes disability retirement, he may, in addition, take an actuarially reduced benefit in which case the member's surviving spouse shall receive 50% of the disability benefit being paid immediately prior to the death of the disabled retiree. If the surviving spouse remarries prior to age 55, such benefits shall cease; however, the benefits shall resume upon subsequent divorce or death of the new spouse, and the approval of the board of trustees.

Notes to Consolidated Financial Statements

1. PLAN DESCRIPTION (continued)

Deferred Retirement Option Plan

After completing 20 years of creditable service and age 50 or 25 years at any age, a member may elect to participate in the deferred retirement option plan (DROP) for up to 36 months.

Upon commencement of participation in the deferred retirement option plan, employer and employee contributions to the System cease. The monthly retirement benefit that would have been payable is paid into the deferred retirement option plan account. Upon termination of employment, a participant in the program shall receive, at his option, a lump-sum payment from the account or an annuity based on the deferred retirement option plan account balance in addition to his regular monthly benefit.

If employment is not terminated at the end of the 36 months, the participant resumes regular contributions to FRS.

No payments may be made from the deferred retirement option plan account until the participant retires. During the year ended June 30, 2013, \$15,851,779 was credited to deferred retirement option plan accounts on behalf of 221 participants.

Initial Benefit Option

Effective June 16, 1999, members eligible to retire and who do not choose to participate in DROP may elect to receive, at the time of retirement, an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amounts may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account. As of June 30, 2013, \$3,300,268 was credited to IBO plan accounts on behalf of 34 plan participants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States using the accrual basis of accounting. Contributions are recognized in the period in which the employee is compensated for services. Benefits and refunds are recognized when due and payable. Investment purchases and sales are recorded as of their trade date. Dividends are recorded on the dividend date and state appropriations are recorded when received. Cash represents amounts on deposit with the custodian fiscal agent banks, and/or the investment advisors. Under state law, FRS may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. FRS's permissible investments are set forth in R.S. 11:262-263 and are further limited in accordance with investment guidelines promulgated by the board of trustees.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As required by GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments in fixed-income securities and common stock are reported at fair market value based on quoted market prices when available. Investments that do not have an established market value are reported at estimated fair value using valuation techniques such as present value estimated future cash flows, matrix pricing, and fundamental analysis. Interest income is recognized on an accrual basis.

Consolidation

The consolidated financial statements include the accounts of Firefighters' Retirement System and ownership in three limited partnerships with ownership percentages in excess of 50.0%. The System is allocated its ownership percentage of the income, gain and net cash flows on all consolidated entities. All significant intercompany balances have been eliminated in the consolidation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at historical cost less an allowance for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of forty years for buildings and three to fifteen years for equipment and furniture. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Accumulated Leave

The employees of the System accumulate unlimited amounts of annual and sick leave at varying rates as established by state regulations. Upon resignation or retirement, unused annual leave of up to 300 hours can be paid to employees at the employee's rate of pay. The liability for accrued annual leave of up to 300 hours is included in accounts payable.

3. CONTRIBUTIONS AND RESERVES

Contributions for all members are established by statute at 10.0% for wages above poverty and 8.0% for wages below poverty for the year ended June 30, 2013. The

Notes to Consolidated Financial Statements

3. CONTRIBUTIONS AND RESERVES (continued)

contributions are deducted from the member's salary and remitted by the participating agency. For the year ended June 30, 2013, employer contributions were 24.00% of covered payroll above poverty and 26.00% below poverty.

Administrative costs of the System are financed through contributions from the State of Louisiana and earnings. According to state statute, contributions for all employers are actuarially determined each year. The System also receives funds from employers each year as set forth by Louisiana statutes.

Reserves

Use of the term "reserve" by the FRS indicates that a portion of the net assets is legally restricted for a specific future use. The nature and purpose of these reserves are explained below.

Expense Fund Reserve

The Expense Fund Reserve provides for general and administrative expenses of the System and those expenses not funded through other specific legislative appropriations. Funding consists of transfers from the pension accumulation reserve and is made as needed.

Annuity Savings

The Annuity Savings is credited with contributions made by members of the System. When a member terminates his service, or upon his death, before qualifying for a benefit, the refund of his contributions is made from this reserve. If a member dies and there is a survivor who is eligible for a benefit, the amount of the member's accumulated contributions is transferred from the Annuity Savings to the Annuity Reserve to provide part of the benefits. The Annuity Savings as of June 30, 2013 is \$148,419,791 and is fully funded.

Pension Accumulation Reserve

The Pension Accumulation Reserve consists of contributions paid by employers, income earned on investments and any other income not covered by other accounts. This reserve account is charged annually with an amount, determined by the actuary, to be transferred to the Annuity Reserve to fund retirement benefits for existing recipients. It is also relieved when expenditures are not covered by other accounts. The required Pension Accumulation Reserve as of June 30, 2013 is \$823,368,116. At June 30, 2013, \$304,649,423 of the reserve is funded and \$518,718,693 is unfunded.

Annuity Reserve

The Annuity Reserve consists of the reserves for all pensions, excluding cost-of-living increases granted to retired members and is the reserve account from which such

Notes to Consolidated Financial Statements

3. CONTRIBUTIONS AND RESERVES (continued)

pensions and annuities are paid. Survivors of deceased beneficiaries also receive benefits from this reserve account. The Annuity Reserve as of June 30, 2013 is \$692,787,888 and is fully funded.

Deferred Retirement Option Account

The Deferred Retirement Option Account consists of the reserves for all members who, upon retirement eligibility, elect to deposit into this account an amount equal to the member's monthly benefit if he had retired. A member can only participate in the program for up to 36 months, and upon termination may receive his benefits in a lump sum payment or by a true annuity. The deferred retirement option as of June 30, 2013 is \$104,055,714 and is fully funded.

Initial Benefit Option Plan Account

The Initial Benefit Option Plan Account consists of the reserves for all members who, upon retirement eligibility, elect to deposit into this account an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amounts may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account. The Initial Benefit Option as of June 30, 2013 is \$3,300,268 and is fully funded.

Funded Status and Funding Process

Contributions to the System are determined through annual actuarial valuations. Administration of FRS is financed through contributions to the plan from employers, the state of Louisiana, and cumulative investment earnings.

The schedule below reflects the funded status and progress of the System for the fiscal year ended June 30, 2013.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/13	\$1,260,348,240	\$1,771,931,777	\$511,583,537	71.13%	\$199,129,982	256.91%

Notes to Consolidated Financial Statements

3. CONTRIBUTIONS AND RESERVES (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required Schedule of Funding Progress located in required supplementary information following the *Notes to the Financial Statements* presents multi-year trend information regarding whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Significant actuarial assumptions used to compute contribution requirements are: (1) a rate of return on the investment of present and future assets of 7.5% per year compounded annually; (2) projected salary increases that vary according to years of service ranging from 15.0% in the first two years of service to 5.5% after 14 years; (3) pre- and post-mortality life expectancies of participants based on the RP 2000 Combined Health Table set back one year for males and females; (4) rates of withdrawal and termination from active service before retirement for reasons other than death (based on a table in the actuarial report which is based on the System's experience); (5) rates of disability (increasing from 0.083% at age 34 and below to 2.684% at age 60 and above); (6) level dollar-closed amortization method; and (7) 5 year investment smoothing. The foregoing actuarial assumptions are based on the presumptions that the plan will continue.

4. REQUIRED CONTRIBUTIONS

FRS funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, and are sufficient to accumulate assets to pay benefits when due. The employer contribution rate is determined using the entry age normal actuarial funding method. FRS amortizes the unfunded liability over a closed 30-year period based on level payments. Beginning with fiscal 2010, actuarial gains and losses as well as contribution gains and losses are amortized over a 20 year amortization period. Each year thereafter, the amortization period will decrease by one year until attaining a 15 year amortization period. All changes in assumptions or the method of valuing assets are amortized over 15 years. Amortization of unfunded liabilities arising from mergers is over 30 years unless PRSAC specifies a shorter period. Contributions totaling \$68.2 million (\$48.1 million employer and \$20.1 million employee), and \$22.0 million from the insurance premium tax fund were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2012.

5. CASH AND INVESTMENTS

Deposit and Investment Risk Disclosure

Governmental Accounts Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, established and modified disclosure requirements related

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

to investment risk. This section describes various types of investment risk and FRS exposure to each type. The tables presented include disclosures regarding credit risk, interest rate risk and foreign currency risk in accordance with GASB Statement No. 40 and are designed to inform statement of net asset users about investment risks that could affect FRS' ability to meet obligations. These tables classify investment risk by type, while the statement of net assets presents investments by asset class. Therefore, totals shown on the tables may not be comparable to the amounts shown for each individual asset class on the statement of net assets. Standard & Poor's rates investment grade securities, using AAA, AA, A, and BBB. Securities with these ratings are considered financially secure. For non-investment grade securities, the ratings BB, B, CCC, CC, C and D are used. These ratings indicate that the security may be "vulnerable" and as such, is regarded as having vulnerable characteristics that may outweigh its strengths.

The System's short-term funds may be invested in cash equivalent securities, which are defined as any fixed income investments with maturity of less than one year with ratings by Moody's and S&P of A or better, money market funds, or custodian bank short-term investment funds.

Louisiana Asset Management Pool

The System invested \$14.4 million at June 30, 2013, in the Louisiana Asset Management Pool (LAMP), Inc. a local government investment pool. LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the state of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33:2955.

LAMP is a 2a7-like investment pool. The following facts are relevant for 2a7-like investment pools:

Credit risk: LAMP is rated AAAM by Standard & Poor's.

Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. FRS's investment is with the pool, not the securities that make up the pool; therefore, no public disclosure is required.

Concentration of credit risk: Pooled investments are excluded from the five percent disclosure requirement.

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

Interest rate risk: 2a7-like investment pools are excluded from this disclosure requirement, per paragraph 15 of the Governmental Accounting Standards Board (GASB) Statement No 40. Foreign currency risk: Not applicable to 2a7-like pools.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 60 days and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pools is the same as the value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company. LAMP issues annual financial reports which can be found on the LAMP website at <http://lampool.com>.

Realized and Unrealized Gains and Losses

During the year, the System's investments (including those bought, sold, and held during the year) experienced an increase in value of \$91.0 million. This increase was comprised of \$83.4 million in unrealized gains and \$7.6 million in realized gains for the year ended June 30, 2013.

The calculation of net appreciation of investments is independent of realized gains and losses. Realized gains or losses on investments that had been held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in the prior year and current year. The following table presents the fair value of investments permissible under the rules, objectives and guidelines of the System as of June 30, 2013:

<u>Investment Type</u>	<u>Fair Value</u>
US Government agency bonds	\$ 16,153,278
Corporate bonds (domestic & foreign)	41,291,614
Equities (domestic & foreign)	380,232,688
Mutual funds	441,507,984
Exchange traded funds	325,170
Asset backed securities	18,696,452
Private equity	65,823,357
Real estate	94,561,781
Hedge funds	112,200,242
Notes receivable	11,462,589
TOTAL	<u>\$1,182,255,155</u>

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect FRS' account balances and the amounts reported in the statement of plan net assets.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent, but not in the System's name. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission. FRS has no formal policy regarding custodial credit risk. The Plan's bank deposits were entirely covered by federal depository insurance and by pledged securities. The pledged securities were held at the Federal Reserve in joint custody. FRS had no custodial credit risk as of June 30, 2013.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The standardized rating systems are a good tool with which to assess credit risk on debt obligations. The System requires that debt obligations be investment grade at time of purchase (Baa as rated by Moody's or BBB or higher as rated by Standard and Poor's), unless otherwise authorized by the board of trustees.

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

The following table provides credit rating information for the System's bond holdings at June 30, 2013.

Standard and Poor's Rating	Fair Value
AA+	\$17,322,962
AA	844,440
AA-	2,616,314
A+	3,446,574
A	11,417,215
A-	5,723,380
BBB+	3,939,981
BBB	6,425,452
BBB-	4,658,574
BB-	1,050,000
TOTAL	\$57,444,892

At June 30, 2013, the System held unrated mutual funds with a fair value of \$153,861,171. At June 30, 2013, the System held cash equivalents with a fair value of \$82,975,360, of which \$14,364,456 were rated AAAM and \$68,610,904 were unrated.

Concentration of Credit Risk

Concentration of credit risk is defined as the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by lack of diversification. The System's investment policy limits the concentration to any one issue, other than U.S. Government or U.S. Government agency bonds or notes, of five percent of the fair value of total investments nor shall the bonds of any one issuer, other than the U.S. Government or its agencies, account for more than 10% of the fair value of the system's total portfolio. At June 30, 2013, the System had investments in a bond mutual fund of \$153,861,171 and equity mutual funds from one issuer of \$254,497,750, respectively, which exceeded the five percent threshold.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investment with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. FRS has no formal investment policy regarding interest rate risk.

The following table shows the System's fixed income investments and maturities in actively-managed accounts at June 30, 2013:

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

<u>INVESTMENT TYPE</u>	<u>Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>Greater than 10</u>
Corporate bonds	\$41,291,614	\$2,906,678	\$20,667,642	\$10,780,869	\$6,936,425
US Government & US Government backed securities	16,153,278	2,632	4,083	16,893	16,129,670

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

Foreign Currency Risk

The System is a party to contracts for the derivative instruments as discussed below. At June 30, 2013, the following derivative instruments were outstanding:

Currency Denomination	FORWARD CONTRACTS				Unrealized Gain (Loss) at 6/30/2012
	Receivable Contract Notional Value	Receivable Contract Fair Value	Payable Contract Notional Value	Payable Contract Fair Value	
US Dollar	\$5,891,281	\$5,891,281	N/A	N/A	\$ -
South Korean Won	2,032,600	2,032,865	N/A	N/A	265
US Dollar	1,719,659	1,719,659	N/A	N/A	-
US Dollar	1,701,689	1,701,689	N/A	N/A	-
Euro	1,477,655	1,438,762	N/A	N/A	(38,893)
US Dollar	1,257,386	1,257,386	N/A	N/A	-
US Dollar	826,397	826,397	N/A	N/A	-
US Dollar	758,399	758,399	N/A	N/A	-
Euro	627,080	611,152	N/A	N/A	(15,928)
US Dollar	375,628	375,628	N/A	N/A	-
Swiss Franc	302,017	301,781	N/A	N/A	(236)
US Dollar	270,408	270,408	N/A	N/A	-
Swiss Franc	162,328	165,540	N/A	N/A	3,212
Euro	N/A	N/A	5,891,281	5,660,794	230,487
US Dollar	N/A	N/A	2,032,600	2,032,600	-
South Korean Won	N/A	N/A	2,032,866	2,032,866	-
Euro	N/A	N/A	1,719,659	1,733,092	(13,433)
Australian Dollar	N/A	N/A	1,701,689	1,566,857	134,832
US Dollar	N/A	N/A	1,477,655	1,477,655	-
Euro	N/A	N/A	1,257,386	1,235,954	21,432
Australian Dollar	N/A	N/A	826,397	788,596	37,801
Swiss Franc	N/A	N/A	758,399	759,369	(970)
US Dollar	N/A	N/A	627,080	627,080	-
Swiss Franc	N/A	N/A	375,628	389,364	(13,736)
US Dollar	N/A	N/A	302,017	302,017	-
Swiss Franc	N/A	N/A	270,408	270,708	(300)
US Dollar	N/A	N/A	162,328	162,328	-
Total		\$17,350,947		\$19,039,280	\$344,533

When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily. Unrealized gains or losses on the contracts are measured by the difference between the forward foreign exchange rates at the date of entry into the contract and the forward rates at the reporting date. These gains or losses are included in the statement of changes in plan net assets. The fair values of the forward foreign currency contracts were estimated based on present value of their estimated future cash flows. The System is exposed to foreign currency risk because the contracts are denominated in Australian Dollar, British Pound, Euro, Japanese Yen, Brazil Real, Hong Kong Dollar, and Swiss Franc. The System is exposed to credit risk on its foreign currency forward contracts in the event

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS (continued)

that a counterparty to the contracts does not fulfill its obligations. FRS has no formal policy regarding foreign currency risk.

The system had the following foreign currency exposures in its cash and investment portfolio at June 30, 2013.

<u>Currency</u>	<u>Cash</u>	<u>Equities</u>	<u>Total Fair Value</u>
Australian Dollar	\$ 14,978	\$ 5,602,816	\$ 5,617,794
Brazil Real	87,067	6,756,141	6,843,208
Canadian Dollar	23,278	5,570,379	5,593,657
Danish Krone	1,903	239,703	241,606
Euro	246,901	861,536	1,108,437
Hong Kong Dollar	44,580	25,554,783	25,599,363
Hungarian Forint	5,093	9,034,435	9,039,528
Indonesian Rupiah	9,730	185,942	195,672
Israeli Shekel	626	602,013	602,639
Japanese Yen	97,506	118,296	215,802
Malaysian Ringgit	9,985	11,495,015	11,505,000
Mexican Peso	768	447,483	448,251
New Zealand Dollar	80	768,856	768,936
Norwegian Krone	18,010	394,352	412,362
Polish Zloty	0	352,320	352,320
Pound Sterling	69,987	18,309,986	18,379,973
South African Rand	42,142	691,345	733,487
Singapore Dollar	6,700	2,072,245	2,078,945
South Korean Won	37,528	6,795,063	6,832,591
Swedish Krona	0	2,545,794	2,545,794
Swiss Franc	104	13,084,366	13,084,470
Thailand Baht	4,135	212,000	216,135
Total	<u>\$ 721,101</u>	<u>\$111,694,869</u>	<u>\$112,415,970</u>

Investment Receivables

On April 1 2008, FRS invested \$45.0 million into the FIA Leveraged Fund (“Leverage Fund”), an open ended investment fund registered in the Cayman Islands. The Leverage Fund in turn invested in other feeder funds that ultimately invested in the Master Fund, Fletcher International, Ltd. (“FILB”). Fletcher Asset Management (“FAM”) served as the investment manager to all of the funds in the master-feeder structure. In April 2011, FRS requested a partial redemption followed by a full redemption request in June 2011. These redemption requests were not met resulting in FRS filing a winding up petition with the Grand Court in the Cayman Islands to force the liquidation of the fund. In April 2012, the Cayman Court awarded FRS a winding up judgment and official liquidators were appointed to oversee the fund and wind up its affairs. In response to this judgment, FAM filed for bankruptcy protection for the Master Fund, FILB. In October, 2012, the bankruptcy court issued an order for

Notes to Consolidated Financial Statements

5. CASH AND INVESTMENTS - (continued)

the appointment of a US Trustee to investigate the assets of the fund and manage the liquidation of the fund. The Trustee continues the investigation regarding the value of the assets remaining in the fund and any potential recovery. As of June 30, 2012, FRS had recorded a reserve of \$18,544,478 against a receivable balance of \$63,821,660. As of June 30, 2013, FRS has recorded a reserve of \$63,796,326 against a receivable balance of \$63,796,326. As the Trustee progresses in his investigation and asset values are determined, FRS will make adjustments to the value of the receivable.

Alternative Investments

At June 30, 2013 FRS had investments in limited partnership arrangements which are listed in the accompanying financial statements as private equity and private real estate. As of June 30, 2013, these investments had a cost basis of \$167,039,471 and an estimated fair value of \$160,385,138. The total amount committed for these type of investments is \$260,358,000, with \$ 244,962,910 being contributed to date. In addition, FRS had hedge fund investments with a cost basis of \$81,499,539 and a fair value of \$112,200,242.

6. NOTES RECEIVABLE FROM MERGED SYSTEMS

7% notes receivables from merged systems at June 30, 2013 consisted of the following:

<u>System</u>	<u>Annual Payments (Including Interest)</u>	<u>Final Payment Due</u>	<u>Balance</u>
Kenner	\$ 95,005	April 1, 2029	\$ 905,121
Kenner Retirees	142,697	April 1, 2029	1,348,012
West Monroe	<u>171,340</u>	January 1, 2015	<u>597,158</u>
	<u>\$409,042</u>		<u>\$2,850,291</u>

7. PROPERTY AND EQUIPMENT

The following is a summary of changes in the property and equipment during the fiscal year.

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance June 30, 2013</u>
Land	\$ 260,107	-	-	\$260,107
Building	734,720	-	-	734,720
Equipment	70,111	-	(983)	69,128
Furniture & Fixtures	58,488	950	-	59,438
Computer Equipment	<u>202,345</u>	<u>25,808</u>	<u>-</u>	<u>228,153</u>
	<u>1,325,771</u>	<u>26,758</u>	<u>(983)</u>	<u>1,351,546</u>
Accumulated depreciation	<u>542,689</u>	<u>44,614</u>	<u>(896)</u>	<u>586,707</u>
Net property and equipment	<u>\$ 783,082</u>	<u>\$ (17,856)</u>	<u>\$ (87)</u>	<u>\$765,139</u>

Depreciation expenses for the year ended June 30, 2013 was \$44,614.

Notes to Consolidated Financial Statements

8. CONCENTRATIONS OF CREDIT RISKS

FRS has notes receivable from municipalities within the state. The collectability of the receivables described in Note 6 above is dependent on the continued existence and solvency of those entities.

Also, as noted in Note 5 above, FRS has investments in various entities. The value and collectability of these investments is dependent on the normal market conditions that impact these types of investments as well as the continued existence and solvency of those entities.

9. RISK MANAGEMENT

FRS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the System carries insurance through the State of Louisiana, Office of Risk Management at levels which management believes are adequate to protect the System. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

FRS is a tax qualified plan as determined by the Internal Revenue Service.

10. PENDING OR THREATENED LITIGATION, CLAIMS, AND ASSESSMENTS

This footnote relates to the FRS investment in the Series N Shares of the "FIA Leveraged Fund", hereinafter referred to as "FIAL". In April 2008, FRS invested \$45mn in the Series N Shares of FIAL. The Series N Shares ranked senior to common shares of FIAL in payment of dividends and liquidation. Each month thereafter, FRS received valuation statements from Citco Fund Services (Cayman Islands), who was the third-party, independent administrator of FIAL, showing that the value of the FRS investment had increased by 1% per month. By May 2011, Citco Fund Services reported the total value of FRS' investment equaled \$64.4mn.

FIAL is part of a master-feeder fund structure with affiliated entities in the Cayman Islands, Bermuda, and the United States. All of the primary investments of FIAL are owned by a Bermudan master fund known as Fletcher International, Ltd. (FILB) which is currently subject to a bankruptcy filing in the Southern District of New York. The New York bankruptcy trustee is in the process of marshaling the assets of FILB, along with filing of claims against various owners and insiders to clawback certain payments. In addition, the bankruptcy trustee intends to assert various claims against the professionals associated with FIAL and FILB. FRS has also filed lawsuits against several of FIAL's third-party service providers in which counsel projects the recovery of a substantial, but as yet indeterminable, amount. However, because of multiple variables relating to the litigation and a confidentiality order that has been ordered by the court in the FILB bankruptcy proceedings, FRS cannot accurately predict the outcome of the litigation or evaluate the value of the claims being asserted by FILB on behalf of FIAL.

Notes to Consolidated Financial Statements

10. PENDING OR THREATENED LITIGATION, CLAIMS, AND ASSESSMENTS –

(continued)

FRS also expects recovery through the bankruptcy proceedings. The value of such recovery depends on the bankruptcy trustee's completion of the liquidation process which could be a protracted period, with substantial unknown expenses to be incurred, and the validity of certain complex legal theories being asserted on behalf of FIAL and FILB in various legal proceedings. Further, FIAL believes it is likely that a substantial recovery will be made in the pending litigation that FIAL has filed against third party service providers that is pending in Louisiana. However, FIAL cannot predict the amount, the future expenses to be incurred that will offset the recovery, or the timing of the recovery given the inherent uncertainty of litigation and the possibility that the venue of the litigation will be other than in Louisiana, which will increase the cost of litigation.

FRS recognized an \$8.5 million write-down of the FIAL investment in fiscal year 2010-11 and an additional \$10 million write down in fiscal year 2011-12. FRS has elected to continue to follow a conservative approach in the reporting of its investment in FIAL in the current year. FRS has recognized a write down of the FIAL investment to \$0 value in this 2012-13 fiscal year. When events occur in the future that make the valuation of the FIAL investment more certain, FRS will consider revaluing the investment in FIAL. On the other hand, accounting principles require a valuation, thereby putting FRS management in the tenuous position of possibly reporting an incorrect value. For that reason, FRS reports the foregoing value. In addition, FRS has filed lawsuits against several of the Fund's third-party service providers in which counsel projects the recovery of a substantial, but as yet indeterminable, amount.

Joseph N. Broyles v. Cantor Fitzgerald & Co., et al., Civil Action No. 3:10-854-JJB-SCR, United States District Court, Middle District of Louisiana consolidated with *Joseph N. Broyles, et al. versus Cantor Fitzgerald & Co. et al.*, Civil Action No. 3:10-857-JJB-SCR, United States District Court, Middle District of Louisiana; and *In re Sand Spring Capital III*, Case No. 11-13393, US Bankruptcy Court, District of Delaware - A consolidation of five funds managed by Commonwealth Advisors.

In 2007, FRS invested approximately \$52 million in two funds managed by Commonwealth Advisors. The funds were primarily managed by an investment manager who was at the time a faculty professor of finance at Louisiana State University (LSU). As time passed the overall fund devalued, including the FRS investment, and the manager placed the funds into bankruptcy. FRS objected to the liquidation schedule that was included in the reorganization plan filed in the bankruptcy court. Subsequently, the Securities and Exchange Commission issued a "Wells Notice" to the investment manager, and the manager has since been removed from management of the funds. An independent fiduciary has been appointed by the bankruptcy court to liquidate the funds' assets and distribute the proceeds. The bankruptcy lawsuit continued throughout the entirety of this fiscal year.

Notes to Consolidated Financial Statements

10. PENDING OR THREATENED LITIGATION, CLAIMS, AND ASSESSMENTS – (continued)

Duty v. City of Natchitoches and Firefighters' Retirement System, Suit No. 81,283, 10th Judicial District Court, Natchitoches Parish. FRS is named as a defendant along with the City of Natchitoches in a lawsuit filed by a retired city firefighter. The lawsuit alleges that the city failed to include scheduled overtime in the earnable compensation that it reported to FRS, thus resulting in lower than expected retirement benefits. The plaintiff asks the court to grant an increase in the amount of his retirement benefits. The plaintiff requested certification of a statewide class, thereby making the lawsuit applicable to all similarly situated firefighters in the state of Louisiana, if the class action is certified by the Court. The lawsuit has a potential class quantum of approximately \$50.0 million. If a class is certified, then the lawsuit may have a material impact on FRS assets by increasing the contributions and actuarial funding that the plaintiff firefighters and employers must pay to FRS to offset the cost of any increased benefits that FRS must pay. The lawsuit is in the motion and discovery stage but, at this point, the Court has ruled in such a way that assures FRS will be made actuarially whole if the plaintiff (or the class) prevails in the matter. The lawsuit continued throughout the entirety of this fiscal year.

11. VALUATION INFORMATION

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar – closed
Remaining amortization period	17 years
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increase *	5.5% - 15.0%
Cost of living adjustments	Only those previously granted
Investment smoothing	5 year

*Includes inflation at 3.00%

Notes to Consolidated Financial Statements

12. NOTES RECEIVABLE

The limited partnerships that the System has at least 50.1% ownership in have the following notes receivable as of June 30, 2013. The senior promissory notes are generally collateralized while the subordinated promissory notes and convertible notes are not collateralized.

Number of shares/face value of debt		Fair Value
\$ 2,231,163	American Huts, Inc. 15.0% Senior Promissory Note due 3/4/2017 (25.9%)	\$ 3,571,657
\$412,562	American Huts, Inc. 8.0% Senior Promissory PIK Note due 3/4/2017 (3.0%)	412,562
\$617,874	Fresh Meadows Holdings, Inc. 19.5% Senior Promissory Note due 2/25/2016 (4.5%)	615,894
\$670,588	Enitor Enterprises, LLC 15.0% Senior Promissory Note due 9/28/2018 (4.7%)	670,588
\$375,247	Scarborough BBQ, LLC 13.0% Senior Promissory Note due 4/23/2015 (1.5%)	187,624
\$220,386	JRDH Enterprises, LLC 10.0% Senior Promissory Note due 4/19/2015 (1.6%)	220,593
\$299,666	Springfield BBQ, LLC 13.0% Senior Promissory Note due 4/23/2015 (0.0%)	-
\$96,495	LMM Services, LLC 10.0% Senior Promissory Note due 8/20/2015 (0.5%)	70,180
\$1,058,824	Great Lakes Quick Lube LLC 6.0% Subordinated Promissory Note due 2/18/2020 (7.7%)	1,058,824
\$1,012,941	Sagamore Dining Partners, LLC 15.0% Subordinated Promissory Note due 5/10/2016 (7.3%)	1,012,941
\$183,530	Starlin & Rahvin, Inc. 15.5% Subordinated Promissory Note due 11/25/2013 (0.0%)	-
\$501,882	Realty Resources Southeast Florida, LLC 9.0% Subordinated Promissory Note due 6/30/2017 (0.0%)	-
\$2,500,000	XTreme Power 10.0% Convertible Note due 11/15/13	2,774,658
\$800,000	XTreme Power 10.0% Convertible Note due 11/25/13	867,068
	Total Promissory Notes	\$11,462,589

SUPPLEMENTARY SCHEDULES

SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
Fiscal Years Ended June 30, 2008 – June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/13	\$1,260,348,240	\$1,771,931,777	\$511,583,537	71.13%	\$199,129,982	256.91%
06/30/12	1,218,618,308	1,700,643,083	482,024,775	71.66%	198,112,999	243.31%
06/30/11	1,204,830,245	1,621,007,988	416,177,743	74.33%	193,136,985	215.00%
06/30/10	1,140,054,175	1,536,258,543	396,204,368	74.21%	189,542,210	209.00%
06/30/09	1,073,797,423	1,410,559,615	336,762,192	76.13%	178,913,097	188.00%
06/30/08	1,129,809,421	1,317,161,382	187,351,961	85.78%	169,401,716	110.60%

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
AND OTHER CONTRIBUTING ENTITIES
Fiscal Years Ended June 30, 2008 - June 30, 2013

Year Ended June 30,	Employer & Employee Contributions		State of Louisiana	
	Annual Required Contribution	Percentage of Actual Contribution	Annual Required Contribution	Percentage Contribution
2013	** \$ 77,572,958	87.91%	\$ 22,014,834	100.00%
2012	** 68,056,463	97.47%	21,858,158	99.96%
2011	** 64,302,709	89.90%	21,624,265	100.00%
2010	38,304,576	70.00%	21,306,059	100.00%
2009	24,211,988	93.00%	21,265,547	100.00%
2008	19,590,573	118.00%	20,521,771	100.00%

** Due to a change in state law, the actuarially required contribution must be calculated by the System's actuary for the System as a whole. As such, the amounts reported above represents contributions for both employer and employee. For fiscal years ended June 30, 2010 and prior, annual required contribution amounts were for employer only.

SUPPLEMENTARY INFORMATION
 TRUSTEES PER DIEM
 For the Year Ended June 30, 2013

	Number of Meetings	Per Diem
Charlie Fredieu	13	\$ 975
Stacy Birdwell	12	900
Treasurer John Kennedy or designee	11	-
Commissioner Cristy Nichols or designee	12	-
Senator Elbert Guillory or designee	7	-
Representative Kevin Pearson or designee	9	-
Mayor Mayson Foster	12	825
Mayor Jimmy Durbin	13	900
Perry Jeselink	13	975
Jerry Tarleton	13	-
 Total		 \$4,575

There were a total of 13 board meeting days. The board members receive \$75 per diem for each meeting. Some members do not accept per diem or are paid by other entities.

SUPPLEMENTARY INFORMATION
ADMINISTRATIVE EXPENSE SCHEDULE
For the Year Ended June 30, 2013

<u>Human Resource:</u>	
Staff Salaries	\$ 526,202
Payroll Taxes	12,001
Employee Retirement Expense	108,824
Insurance	54,343
Total Human Resource	701,370
<u>Professional Services:</u>	
Actuarial	54,286
IT Support	67,563
Accounting	65,290
<u>Legal Fees:</u>	
Fletcher	171,886
Commonwealth	377,745
Land Barron	30,686
Other	75,769
Total Legal	656,086
Investigative Services	1,554
Medical Exams	12,529
<u>Contract Services:</u>	
Joint Official Liquidators	969,117
Other	13,674
Total Contract Services	982,791
Bank Service Charge	8,967
Total Professional Services	1,849,066
<u>Communication:</u>	
Advertising	11,101
Printing	4,260
Telephone	5,659
Postage	31,102
Supplies	24,376
Dues and Subscriptions	12,187
Total Communication	88,685
<u>Travel:</u>	
Board Member Per Diem	4,575
Travel	39,569
Education Seminars	6,364
Total Travel	50,508

SUPPLEMENTARY INFORMATION
ADMINISTRATIVE EXPENSE SCHEDULE - continued
For the Year Ended June 30, 2013

<u>Building and Equipment:</u>	
Utilities	\$ 14,228
Building Maintenance	118,148
Equipment Maintenance	119
Depreciation	44,614
Insurance - General	5,875
Miscellaneous Expense	1,430
Total Building and Equipment	<u>184,414</u>
Total Administrative Expense	<u><u>\$ 2,874,043</u></u>