Firefighters' Retirement System 2012 Consolidated Financial Report

Address: 3100 Brentwood Drive Baton Rouge, LA 70809
Phone: (225) 925-4060 Fax (225) 925-4062
Website: www.lafirefightersret.com

LETTER OF TRANSMITTAL

December 1, 2012

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, 2012. 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.

<u>Plan Characteristics</u>

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.

<u>Controls</u>

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 11 and provides an overview and analysis of the system's 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 exceeding $1 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 2012, FRS assets experienced a -4.0% return, net of fees, with three and five year averages of 8.3% and -1.1%, respectively. See the MD&A for a more detailed discussion of FRS' investment performance.

Last year FRS' investment portfolio achieved the highest return in the history of the system earning 18.7%. This year, the capital markets punished the portfolio with a return of -4.0%. However, in order to prevent future wide swings in returns (18.7% versus -4.0%), 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 2011-2012 was as follows:

	Above Poverty	Below Poverty
Employee	10%	8%
Employer	23.25%	25.25%

And for 2012-2013 is as follows:

	Above Poverty	Below Poverty
Employee	10%	8%
Employer	24%	26%

And for 2013-2014 is projected to be as follows:

	Above Poverty	Below Poverty
Employee	10%	8%
Employer	28.5%	30.25%

The overwhelming majority of employees are paid a salary that exceeds the poverty rate so that means, at the time this report is being written, the overwhelming majority of employers are paying the 24% rate; and, in all likelihood, will be paying the projected 28.5% rate next year.

As of June 30, 2012, FRS was 71.66% funded compared to 74.33% as of June 30, 2011. The funded status was adversely impacted partly by the continued recognition of a portion of the losses from 2008-2009 which are factored into the system's 5-year averaging of investment returns (i.e., avg. 2008-2012). Net assets held in trust to pay pension benefits at June 30, 2012 totaled $1.1 billion.

<u>Key Developments and Highlights</u>

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.

- Inside the office, Kelli Rogers was promoted to a newly created position of Investment Officer. This position provides the system with a multitude of new resources from which the system and system's investment portfolio can serve the FRS members, retirees, and taxpayers of this state.
- In late April 2012, Layne McKinney replaced Kelli Rogers in the dual role of System Administrator and staff Certified Public Accountant (CPA).
- 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 8.3%, net of all fees. Using that measure, the overall health of the system's portfolio is good and exceeds 7.5%, which is the yearly target rate for earnings.

<u>Acknowledgements and Considerations</u>

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

This page left intentionally blank

Board of Trustees

Board of Trustees

DUPLANTIER, HRAPMANN,
HOGAN & MAHER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM G. STAMM, C.P.A.
CLIFFORD J. GIFFIN, JR, C.P.A.
LINDSAY J. CALUB, C.P.A., L.L.C.
GUY L. DUPLANTIER, C.P.A.
MICHELLE H. CUNNINGHAM, C.P.A
DENNIS W. DILLON, C.P.A.
GRADY C. LLOYD, III, C.P.A.

ANN H. HEBERT, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LA C.P.A.'S

MICHAEL J. O'ROURKE, C.P.A.
DAVID A. BURGARD, C.P.A.
HENRY L. SILVIA, C.P.A.

A.J. DUPLANTIER JR, C.P.A.
(1919-1985)
FELIX J. HRAPMANN, JR, C.P.A.
(1919-1990)
WILLIAM R. HOGAN, JR., CPA
(1920-1996)
JAMES MAHER, JR, C.P.A.
(1921-1999)

INDEPENDENT AUDITOR'S REPORT

December 3, 2012

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

We have audited the statement of plan net assets of the Firefighters' Retirement System and subsidiaries as of June 30, 2012 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Firefighters' Retirement System. Our responsibility is to express an opinion on these 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully disclosed in footnote 5, the System has an investment receivable in the amount of $45,277,182 whose value was not audited due to the lack of current financial information. The receivable is included on the consolidated statement of plan net assets and represents 3.98% of total assets.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the investment receivable been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the Firefighters' Retirement System as of June 30, 2012 and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

1615 Poydras Street, Suite 2100 New Orleans, LA 70112 · (504) 586-8866 · Fax (504) 525-5888
1670 Old Spanish Trail Slidell, LA 70458 · (985) 649-9996 · Fax (985) 649-9940
247 Corporate Drive Houma, LA 70360 · (985) 868-2630 · Fax (985) 872-3833
www.dhhmcpa.com

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2012 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* and should be considered in assessing the results of our audit.

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 2010-2012 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, 2007-2009 was audited by other auditors who did not express an opinion on it.

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.

The letter of transmittal is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Duplantier, Hrapmann, Hogan & Maher, LLP

WILLIAM G. STAMM, C.P.A.
CLIFFORD J. GIFFIN, JR, C.P.A.
LINDSAY J. CALUB, C.P.A., L.L.C.
GUY L. DUPLANTIER, C.P.A.
MICHELLE H. CUNNINGHAM, C.P.A
DENNIS W. DILLON, C.P.A.
GRADY C. LLOYD, III, C.P.A.

ANN H. HEBERT, C.P.A.

DUPLANTIER, HRAPMANN, HOGAN & MAHER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LA C.P.A.'S

MICHAEL J. O'ROURKE, C.P.A.
DAVID A. BURGARD, C.P.A.
HENRY L. SILVIA, C.P.A.

A.J. DUPLANTIER JR, C.P.A. (1919-1985)
FELIX J. HRAPMANN, JR, C.P.A. (1919-1990)
WILLIAM R. HOGAN, JR., CPA (1920-1996)
JAMES MAHER, JR, C.P.A. (1921-1999)

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

December 3, 2012

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

We have audited the financial statements of the Firefighters' Retirement System and subsidiaries, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012. The report was qualified because the System has an investment receivable in the amount of $45,277,182 whose value was not audited due to the lack of current financial information. The receivable is included on the consolidated statement of plan net assets and represents 3.98% of total assets. Except as discussed in the preceding sentence, 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.

Internal Control Over Financial Reporting

Management of Firefighters' Retirement System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Firefighters' Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firefighters' Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Firefighters' Retirement System's internal control over financial reporting.

1615 Poydras Street, Suite 2100 New Orleans, LA 70112 · (504) 586-8866 · Fax (504) 525-5888
1670 Old Spanish Trail Slidell, LA 70458 · (985) 649-9996 · Fax (985) 649-9940
247 Corporate Drive Houma, LA 70360 · (985) 868-2630 · Fax (985) 872-3833
www.dhhmcpa.com

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.*

This report is intended for the use of the Board of Trustees, Office of the Legislative Auditor of the State of Louisiana, and management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.

Duplantier, Hrapmann, Hogan & Maher, LLP

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, 2012. Please review it in conjunction with the Financial Statements which begin on page 19.

- FRS' net assets held in trust for pension benefits decreased by $32 million, or 3%.
- FRS' consolidated investment holdings decreased $39 million from last year's value.
- The rate of return on the estimated fair value of FRS investments was (4.0%), net of fees in 2012 as compared to 18.7% for 2011.
- The system's funded ratio decreased to 71.66% in 2012 from 74.33% in 2011.
- The unfunded actuarial accrued liability increased from $416 million in 2011 to $482 million in 2012, an increase of $66 million or 16%.
- Contributions to FRS increased $9.8 million year over year while benefit and disability payments increased $4.8 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

The statement of plan net assets reports the pension fund's assets, liabilities, and resulting net assets held in trust for pension benefits. It discloses the financial position of FRS as of June 30, 2012. The statement of changes in net assets reports the results of the pension fund's operations during the year disclosing the additions to and deductions from the plan net assets. 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; methods used to value property and equipment; and adoption of new accounting principles.
- Note 3 provides information regarding required 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.

STATEMENT OF PLAN NET ASSETS

TABLE 1
PLAN NET ASSETS
(in thousands)

	2012	2011
Cash and Investments	$1,071,689	$1,098,395
Receivables	101,499	78,555
Capital Assets	783	789
Notes Receivable	3,029	3,317
Prepaid Expense and Other	1,070	246
Total Assets	**$1,178,070**	**$1,181,302**
Liabilities	16,031	15,681
Total Net Assets	**$1,162,039**	**$1,165,621**
Non-Controlling Interest	**(39,174)**	**(11,139)**
Net Assets Held in Trust for Pension Benefits	**$1,122,865**	**$1,154,482**

FRS' net assets held in trust for pension benefits decreased $32 million year over year. This net decrease was comprised of an increase in cash and receivables of $12 million and $23 million, respectively, which was offset by a decrease in investment holdings of $39 million and an increase in the non-controlling interest deduction of $28 million.

STATEMENT OF CHANGES IN PLAN NET ASSETS

TABLE 2
ADDITIONS TO PLAN NET ASSETS
(in thousands)

	2012	2011
Contributions	$89,203	$79,430
Net Investment Income (Loss)	(48,259)	169,445
Other Operating Revenues	236	264
Total Additions	**$41,180**	**$249,139**

Additions to FRS' net assets include employer and member contributions, investment income, and an allocation from the insurance premium tax fund. Employer and employee contributions increased $10 million and net investment income decreased $218 million year over year.

STATEMENT OF CHANGES IN PLAN NET ASSETS (continued)

TABLE 3
DEDUCTIONS FROM PLAN NET ASSETS
(in thousands)

	2012	2011
Retirement Benefits	$64,733	$59,900
Disability Benefits	4,743	4,755
Refunds	1,377	1,072
Net Transfers	(77)	(260)
Administrative Expenses	2,021	965
Total Deductions	**$72,797**	**$66,432**

Deductions from plan assets increased $6.4 million or 9.6%. This increase was primarily due to an increase in benefit payments of $4.8 million and an increase in administrative expenses of $1.0 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 year ended June 30, 2012, for the trailing three years, and trailing five years.

INVESTMENTS – (continued)

TABLE 4
INVESTMENT RETURNS SUMMARY

	Current Year	**Trailing 3 Years**	**Trailing 5 Years**	**Since Inception**
Equities				
US Large Cap	4.6%	16.5%	0.6%	8.7%
SMID Cap	-.7%	19.2%	1.3%	3.2%
Energy	-25.0%	8.9%	-2.6%	-2.6%
International Equity				
International Equity	-16.4%	9.2%	-4.9%	4.8%
Global Equity				
Global Equity	-8.6%	10.8%	-1.4%	1.5%
Fixed Income				
Core	6.9%	8.2%	8.3%	7.1%
Distressed Debt	-12.5%	-14.8%	-16.2%	-12.1%
Emerging Markets	3.0%	12.7%	6.8%	8.3%
Alternatives				
Hedge Funds	-2.6%	8.7%	2.5%	6.3%
Private Equity	9.4%	12.9%	5.7%	7.8%
Real Estate	4.2%	10.9%	1.5%	1.2%
TOTAL FUND	**-4.0%**	**8.3%**	**-1.1%**	**5.7%**

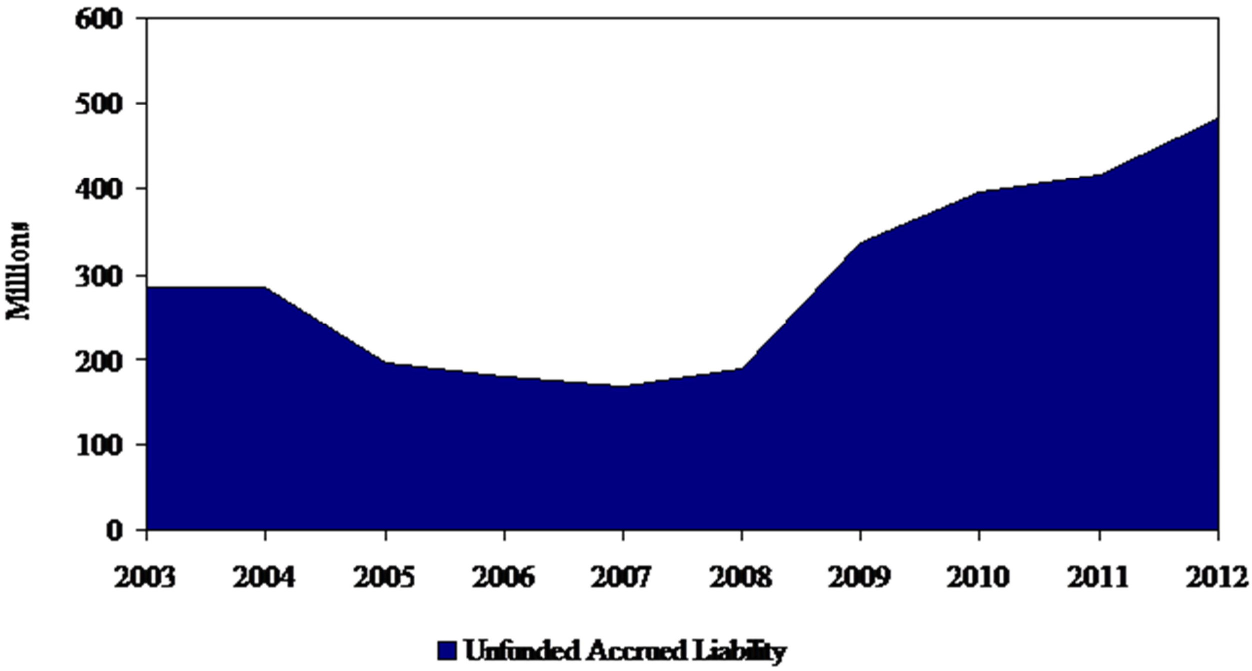
FUNDING STATUS

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



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.

This page left intentionally blank

CONSOLIDATED STATEMENT OF PLAN NET ASSETS

JUNE 30, 2012

ASSETS	
Cash and cash equivalents	$ 81,767,324
Receivables	
Employer	4,115,299
Employee	1,767,520
Interest and dividends	4,835,864
Forward currency contracts	12,915,846
Pending investments receivable	32,587,384
Investment receivable	63,821,660
Less: Allowance for doubtful accounts	18,544,478
Net investment receivable	45,277,182
Total receivables	101,499,095
Investments at fair value	
Equities - domestic	203,262,636
Equities - foreign	113,536,642
Exchange traded funds	3,429,699
Corporate bonds – domestic	35,703,390
Foreign obligations	5,309,274
US Government agency bonds	17,219,624
Mutual funds	259,150,775
Asset backed securities	15,205,652
Emerging market debt	40,284,012
Private equity	78,667,930
Real estate	87,108,143
Hedge funds	102,070,691
Notes receivable	28,973,342
Total investments at fair value	989,921,810
Property, building, equipment and fixtures, net of accumulated depreciation of $542,689	783,082
7% notes receivable from merged systems	3,029,077
Prepaid expenses and other	1,069,865
TOTAL ASSETS	$1,178,070,253

CONSOLIDATED STATEMENT OF PLAN NET ASSETS
JUNE 30, 2012

LIABILITIES	
Accounts payable	$ 1,487,334
Foreign currency contracts	12,693,590
Investment payables	1,850,264
TOTAL LIABILITIES	16,031,188
TOTAL NET ASSETS	1,162,039,065
Non-Controlling Interest	(39,174,517)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$1,122,864,548

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

ADDITIONS:	
Contributions:	
Employer	$ 47,178,186
Employee	20,176,116
State appropriations from insurance premium taxes	21,848,664
Total contributions	89,202,966
Investment Income:	
Net (depreciation) in fair value of investments	(69,104,273)
Interest and dividends	31,970,042
Less investment expenses	7,537,255
Net investment (loss)	(44,671,486)
Net income attributable to non-controlling interest	(3,587,545)
Net investment loss attributable to Pension Fund	(48,259,031)
Interest from notes receivable	216,991
Rental income	18,927
Total additions	41,179,853
DEDUCTIONS:	
Retirement benefits	64,732,899
Disability benefits	4,743,571
Refunds to terminated employees	1,376,677
Transfers to (from) other systems	(76,749)
Administrative expenses	2,020,947
Total deductions	72,797,345
NET (DECREASE)	(31,617,492)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	1,154,482,040
End of year	$1,122,864,548

The accompanying notes are an integral part of this statement.

This page left intentionally blank

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. 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. 14, *The Financial Reporting Entity* (GASB 14), 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 14.

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

Plan Description (continued)

Plan Membership

Employer and employee membership data at June 30, 2012 is as follows:

Employer Members

Cities	61
Parishes	17
Special districts	51
Total employer members	129

Employee Members

Current retirees and beneficiaries	1,875
Drop participants	217
Terminated vested participants	70
Terminated due a refund	398
Active plan participants	4,056
Total employee members	6,616

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

Plan Description (continued)

3. At death, their beneficiary will receive a life annuity equal to ½ 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 ½% 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 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% of the member's average final compensation multiplied by his total years of service; however, the benefit shall not be less than 40%, or more than 60% of the employee's average final compensation.

2. Children of deceased employees will receive the greater of $200 or 10% 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

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% 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% of the retirement salary to which he would be entitled under R. S. 11:2256 if he were otherwise eligible there under 25% 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.

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, 2012, $14,312,263 was credited to deferred retirement option plan accounts on behalf of 217 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, 2012, $2,896,008 was credited to IBO plan accounts on behalf of 32 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.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies (continued)

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.

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%. 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.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies (continued)

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% for wages above poverty and 8% for wages below poverty for the year ended June 30, 2012. The contributions are deducted from the member's salary and remitted by the participating agency. For the year ended June 30, 2012, employer contributions were 23.25% of covered payroll above poverty and 25.25% 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

Notes to Consolidated Financial Statements

Contributions and Reserves (continued)

Reserve to provide part of the benefits. The Annuity Savings as of June 30, 2012 is $139,800,968 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, 2012 is $813,961,239. At June 30, 2012, $236,182,704 of the reserve is funded and $577,778,535 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 pensions and annuities are paid. Survivors of deceased beneficiaries also receive benefits from this reserve account. The Annuity Reserve as of June 30, 2012 is $644,617,070 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, 2012 is $99,367,798 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, 2012 is $2,896,008 and is fully funded.

Notes to Consolidated Financial Statements

<u>Contributions and Reserves</u> (continued)

<u>Funded Status and Funding Process</u>

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, 2012.

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)
06/30/12	$1,218,618,308	$1,700,643,083	$482,024,775	71.66%	$198,112,999	243%

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.

Notes to Consolidated Financial Statements

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 $67 million ($47 million employer and $20 million employee), and $22 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, 2011.

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 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.

Cash and Investments (continued)

Louisiana Asset Management Pool

The System invested $14 million at June 30, 2012, 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.

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://lamppool.com.

Notes to Consolidated Financial Statements

Cash and Investments (continued)

Realized and Unrealized Gains and Losses

During the year, the System's investments (including those bought, sold, and held during the year) experienced a net decrease in value of $69.1 million. This decrease was comprised of $84.6 million in unrealized losses which were partially offset by a $15.5 million increase in realized gains for the year ended June 30, 2012.

The calculation of net depreciation 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, 2012:

Investment Type	Fair Value
US Government agency bonds	**$ 17,219,624**
Corporate bonds (domestic & foreign)	41,012,664
Equities (domestic & foreign)	316,799,278
Mutual funds	259,150,775
Exchange traded funds	3,429,699
Asset backed securities	15,205,652
Emerging market debt	40,284,012
Private equity	78,667,930
Real estate	87,108,143
Hedge funds	102,070,691
Notes receivable	28,973,342
TOTAL	**$989,921,810**

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.

Cash and Investments (continued)

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, 2012.

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.

The following table provides credit rating information for the System's bond holdings at June 30, 2012.

Standard and Poor's Rating	Fair Value
AA+	$18,408,023
AA	858,528
AA-	2,870,902
A+	2,386,172
A	11,380,256
A-	5,068,986
BBB+	2,428,797
BBB	10,777,012
BBB-	3,066,112
BB	987,500
TOTAL	**$58,232,288**

Notes to Consolidated Financial Statements

Cash and Investments (continued)

At June 30, 2012, the System held unrated mutual funds with a fair value of $60,865,082. At June 30, 2012, the System held cash equivalents with a fair value of $73,162,603, of which $14,349,864 were rated AAAm and $58,812,739 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, 2012, the System had investments in a bond mutual fund of $60,865,082 and equity mutual funds from one issuer of $172,074,144, 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, 2012:

		INVESTMENT MATURITIES (in years)			
INVESTMENT TYPE	**Fair Value**	**Less than 1**	**1-5**	**5-10**	**Greater than 10**
Corporate bonds	$41,012,664	$4,108,224	$12,793,457	$19,044,880	$5,066,103
US Government & US Government backed securities	17,219,624	0	16,691	22,353	17,180,580

Notes to Consolidated Financial Statements

Cash and Investments (continued)

Foreign Currency Risk

The System is a party to contracts for the derivative instruments as discussed below. At June 30, 2012, the following derivative instruments were outstanding:

	FORWARD CONTRACTS				
Currency Denomination	Receivable Contract Notional Value	Receivable Contract Fair Value	Payable Contract Notional Value	Payable Contract Fair Value	Unrealized Gain (Loss) at 6/30/2012
US Dollar	$5,276,989	$5,276,989	N/A	N/A	$-
US Dollar	1,551,171	1,551,171	N/A	N/A	-
US Dollar	1,544,140	1,544,140	N/A	N/A	-
Japanese Yen	1,389,574	1,384,803	N/A	N/A	(4,771)
Euro	782,795	744,044	N/A	N/A	(38,751)
US Dollar	770,861	770,861	N/A	N/A	-
Euro	462,999	445,969	N/A	N/A	(17,030)
Australian Dollar	412,299	419,273	N/A	N/A	6,974
US Dollar	271,302	271,302	N/A	N/A	-
US Dollar	167,063	167,063	N/A	N/A	-
Japanese Yen	87,220	86,826	N/A	N/A	(394)
US Dollar	84,347	84,347	N/A	N/A	-
Hong Kong Dollar	49,532	49,539	N/A	N/A	7
US Dollar	40,957	40,957	N/A	N/A	-
US Dollar	37,243	37,243	N/A	N/A	-
British Pound	24,859	25,084	N/A	N/A	225
British Pound	10,748	10,748	N/A	N/A	-
British Pound	3,626	3,657	N/A	N/A	31
British Pound	1,809	1,830	N/A	N/A	21
Euro	N/A	N/A	5,276,989	5,126,299	150,690
Euro	N/A	N/A	1,551,171	1,475,266	75,905
Swiss Franc	N/A	N/A	1,544,140	1,536,518	7,622
British Pound	N/A	N/A	1,389,574	1,382,961	6,613
US Dollar	N/A	N/A	782,795	782,795	-
Swiss Franc	N/A	N/A	770,861	736,046	34,815
US Dollar	N/A	N/A	462,999	462,999	-
US Dollar	N/A	N/A	412,299	412,299	-
Japanese Yen	N/A	N/A	271,302	270,391	911
Japanese Yen	N/A	N/A	167,063	166,309	754
US Dollar	N/A	N/A	87,220	87,220	0
Japanese Yen	N/A	N/A	84,347	84,300	47
US Dollar	N/A	N/A	49,532	49,532	-
Swiss Franc	N/A	N/A	40,957	41,796	(839)
Brazil Real	N/A	N/A	37,243	37,825	(582)
US Dollar	N/A	N/A	24,859	24,859	-
Japanese Yen	N/A	N/A	10,748	10,753	(5)
Japanese Yen	N/A	N/A	3,626	3,623	3
Japanese Yen	N/A	N/A	1,809	1,799	10
Total		**$12,915,846**		**$12,693,590**	**$222,256**

Notes to Consolidated Financial Statements

Cash and Investments (continued)

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 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, 2012.

Currency	Cash	Equities	Total Fair Value
Australian Dollar	$ 12	$ 4,922,717	$ 4,922,729
Brazil Real	159,112	8,509,106	8,668,218
Canadian Dollar	3,261	7,293,049	7,296,310
Danish Krone	5,165	721,105	726,270
Euro	15,298	20,630,882	20,646,180
Hong Kong Dollar	17,342	9,291,810	9,309,152
Hungarian Forint	3,075	125,113	128,188
Indonesian Rupiah	0	379,077	379,077
Israeli Shekel	3,411	107,508	110,919
Japanese Yen	152,935	8,741,760	8,894,695
Malaysian Ringgit	7,309	218,041	225,350
Mexican New Peso	0	947,769	947,769
New Zealand Dollar	84	0	84
Norwegian Krone	7,807	514,900	522,707
Polish Zloty	1,415	421,448	422,863
Pound Sterling	2,731	16,820,043	16,822,774
Singapore Dollar	13,104	195,248	208,352
South African Rand	29,269	1,142,546	1,171,815
South Korean Won	153,814	2,324,888	2,478,702
Swedish Krona	12,722	947,016	959,738
Swiss Franc	13,057	10,655,757	10,668,814
Thailand Baht	7,869	227,053	234,922
Total	$608,792	$95,136,836	$95,745,628

Notes to Consolidated Financial Statements

Cash and Investments (continued)

Investment Receivables

On April 1 2008, FRS invested $45 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 the appointment of a US Trustee to investigate the assets of the fund and manage the liquidation of the fund. Due to the Trustee beginning the investigation within the last 30 days, information regarding the value of the assets remaining in the fund and any potential recovery was not available. As of June 30, 2012, FRS has recorded a reserve of $18,544,478 against a receivable balance of $63,821,660. 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, 2012 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, 2012, these investments had a cost basis of $174,357,423 and an estimated fair value of $165,776,073. The total amount committed for these type of investments is $259,358,000 with $237,674,067 being contributed to date. In addition, FRS had hedge fund investments with a cost basis of $82,477,058 and a fair value of $102,070,691. All commitments for hedge funds have been satisfied.

6. NOTES RECEIVABLE FROM MERGED SYSTEMS

7% notes receivables from merged systems at June 30, 2012 consisted of the following:

System	Annual Payments (Including Interest)	Final Payment Due	Balance
Kenner	$ 95,005	April 1, 2029	$ 935,599
Kenner Retirees	142,697	April 1, 2029	1,393,187
New Iberia Retirees	110,352	January 1, 2013	103,133
West Monroe	171,340	January 1, 2015	597,158
	$519,394		$3,029,077

Notes to Consolidated Financial Statements

7. PROPERTY AND EQUIPMENT

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

	Balance July 1, 2011	Additions	Retirement	Balance June 30, 2012
Land	$ 260,107	-	-	$260,107
Building	734,720	-	-	734,720
Equipment	40,956	29,155	-	70,111
Furniture & Fixtures	57,217	1,271	-	58,488
Computer Equipment	199, 565	2,780	-	202,345
	1,292,565	33,206	-	1,325,771
Accumulated depreciation	503,330	39,359	-	542,689
Net property and equipment	$ 789,235	$ (6,153)	$ -	$783,082

Depreciation expenses for the year ended June 30, 2012 was $39,359.

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. <u>Pending or Threatened Litigation, Claims, and Assessments</u>

Firefighters' Retirement System v. Regions Morgan Keegan, et al., Suit No. 567,874, 19th Judicial District Court, East Baton Rouge Parish. In 2009, FRS filed a lawsuit versus Regions Morgan Keegan (RMK), along with its parent and subsidiary affiliates. The lawsuit alleges that FRS incurred significant losses due to the defendants' mismanagement of a fund in which FRS was an investor. FRS seeks to recover damages in the sum of $45-65 million. The lawsuit continued throughout the entirety of this fiscal year. [As a side note, the litigation attorneys representing FRS in the RMK case report that the Securities and Exchange Commission and several state securities regulators jointly imposed a $200 million fine against Morgan Keegan and Morgan Asset Management and placed a lifetime bar from practicing in the securities industry against the former portfolio manager (Jim Kelsoe) who managed the fund in which FRS invested.]

In the Matter of the Companies Law (2011 Revision) and In the Matter of FIA Leveraged Fund, FSD No. 0013/2012, In the Grand Court of the Cayman Islands, Financial Services Division; and the same matter pending In the Court of Appeal of the Cayman Islands, Civil Appeal No. 6 of 2012. In April 2008, FRS invested approximately $45 million in a fund (FIAL) that was part of a four fund, master-feeder fund structure managed by Fletcher Asset Management (FAM). Upon request for redemption by FRS in March 2011, FAM responded in June 2011 with a purported in-kind distribution, by attempting to assign FRS a 100% interest in a promissory note issued between two of the funds in the master-feeder fund structure.

In January 2012, FRS countered by filing a petition to place FIAL into liquidation. The court held for FRS and appointed court officers to accomplish the liquidation. The liquidators were simultaneously taking action to bring two of the other FAM funds within their court-appointed authority. However, before the process could be completed, the liquidators reported that FAM transferred a significant sum of assets into the fourth (and as yet un-liquidated) fund and placed that fund into bankruptcy. The bankruptcy court removed FAM as manager of that fund and authorized the US Justice Department to appoint a trustee. That trustee is in the process of conducting all appropriate investigations and determining the location and value of assets to be distributed to FAM's investors, including FRS. The lawsuits involving liquidation of the three funds and bankruptcy of the fourth fund continued throughout the entirety of this fiscal year.

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.

Notes to Consolidated Financial Statements

<u>Pending or Threatened Litigation, Claims, and Assessments</u> – (continued)

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.

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 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.

Notes to Consolidated Financial Statements

11. Valuation Information

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar – closed
Remaining amortization period	18 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 3.25%

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, 2012.

Number of shares/face value of debt		Fair Value
$ 2,231,163	American Huts, Inc. 23% Senior Promissory Note due 3/4/2017 (17.8%)	$ 3,980,338
$ 854,887	Dessert First Pizza, Inc.; North County Pizza, Inc. 15% Senior Promissory Note due 12/23/2013 (3.9%)	880,779
$683,147	Fresh Meadows Holdings, Inc. 19.5% Senior Promissory Note due 2/25/2016 (3.5%)	787,476
$670,588	Enitor Enterprises, LLC 15% Senior Promissory Note due 9/28/2018 (3.5%)	773,876
$375,247	Scarborough BBQ, LLC 13% Senior Promissory Note due 4/23/2015 (1.2%)	270,035
$255,146	JRDH Enterprises, LLC 10% Senior Promissory Note due 4/19/2015 (1.0%)	239,548
$299,666	Springfield BBQ, LLC 13% Senior Promissory Note due 4/23/2015 (1.0%)	215,646
$103,128	LMM Services, LLC 10% Senior Promissory Note due 8/20/2015 (0.4%)	90,359
$ 1,198,125	Dessert First Pizza, Inc.; North County Pizza Inc. 18.25% Subordinated Promissory Note due 12/23/2018 (3.8%)	869,647
$1,235,294	Great Lakes Quick Lube Limited Partnership Subordinated Promissory Note (2.8%)	617,647
$183,529	Starlin & Rahvin, Inc. 15.5% Subordinated Promissory Note due 11/25/2013 (0.0%)	-
$456,846	Realty Resources Southeast Florida, LLC 9.0% Subordinated Promissory Note due 6/30/2017 (0%)	-
$5,000,000	FlexEnergy, Inc. 11.5% Senior Convertible Note due 12/31/13	5,000,000
$5,000,000	FlexEnergy, Inc. 11.5% Senior Convertible Note due 12/31/13	5,000,000
$6,000,000	SNTech, Inc. 8% Convertible Note due 12/31/12	7,722,649
$2,500,000	XTreme Power 10% Convertible Note due 11/15/13	2,525,342
	Total Promissory Notes	**$28,973,342**

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
June 30, 2012

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)**
06/30/12	$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%
06/30/07	1,025,656,019	1,192,323,327	166,667,308	86.02%	155,944,919	106.88%

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
AND OTHER CONTRIBUTING ENTITIES
June 30, 2012

Year Ended June 30,		Employer & Employee Contributions		State of Louisiana	
		Annual Required Contribution	Percentage of Actual Contribution	Annual Required Contribution	Percentage Contribution
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%
2007		20,681,735	115.00%	18,946,928	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, 2012

	Number of Meetings	Per Diem
Charlie Fredieu	14	$ 900
Paul Smith	9	600
Stacy Birdwell	14	900
Treasurer John Kennedy or designee	13	0
Commissioner Paul Rainwater or designee	11	0
Senator Elbert Guillory or designee	4	0
Representative Kevin Pearson or designee	5	0
Mayor Mayson Foster	10	675
Mayor Jimmy Durbin	12	750
Perry Jeselink	4	300
Jerry Tarleton	14	0
Total		$4,125

There were a total of 14 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, 2012

Human Resource:	
Staff Salaries	$ 456,320
Payroll Taxes	6,639
Employee Retirement Expense	111,291
Insurance	44,940
Total Human Resource	**619,190**
Professional Services:	
Actuarial	48,180
IT Support	55,134
Accounting	47,000
Legal Fees:	
Fletcher	276,874
Sandsprings III	180,028
Land Barron	103,039
Other	44,544
Total Legal	604,485
Investigative Services	1,310
Medical Exams	22,382
Contract Services:	
E&Y – Fletcher	148,399
Joint Official Liquidators	133,333
Other	14,975
Total Contract Services	296,707
Bank Service Charge	7,378
Total Professional Services	**1,082,576**
Communication:	
Advertising	3,445
Printing	4,085
Telephone	6,842
Postage	32,246
Supplies	18,576
Dues and Subscriptions	10,528
Total Communication	75,722
Travel:	
Board Member Per Diem	4,125
Travel	49,244
Education Seminars	3,736
Total Travel	**57,105**

SUPPLEMENTARY INFORMATION
ADMINISTRATIVE EXPENSE SCHEDULE - continued
For the Year Ended June 30, 2012

Building and Equipment:	
Utilities	$ 15,543
Building Maintenance	34,189
Equipment Maintenance	17,517
Depreciation	39,359
Insurance - General	5,628
Miscellaneous Expense	74,118
Total Building and Equipment	186,354
Total Administrative Expense	**$ 2,020,947**

This page left intentionally blank.

FIREFIGHTERS' RETIREMENT SYSTEM
SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion issued on the financial statements of Firefighters' Retirement System for the year ended June 30, 2012 was qualified.

2. Internal Control:

   None.

3. Compliance and Other Matters:

   None.

4. Status of Prior Year Comments:

   11-01 We noted that the System's database computer system is unable to generate a member annuity register (a report details all active member employee contributions by member name). This lack of a report results in the System's accounting staff not being able to reconcile member annuity savings per the database system to the general ledger. Not performing this reconciliation could result in the incorrect reporting of a member's balance. In addition, Louisiana Revised Statutes 11:2262 B requires an annuity savings fund in which shall accumulate contributions from the compensation of members. We recommend that the System inquire with their computer service provider to make the necessary changes in order to generate a member annuity register which can be used by the System's accounting staff to reconcile annuity savings with the general ledger on a periodic basis.

   This finding was resolved in the current year.