

**Firefighters' Retirement System
2011
Consolidated Financial Report**

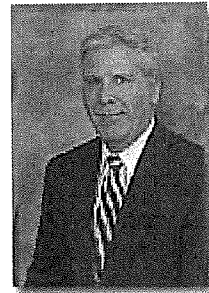


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LETTER OF TRANSMITTAL

December 1, 2011

**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, 2011. 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 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 employs 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 statement to ensure that they conform to U.S. generally accepted accounting principles in all material respects.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) begins on page 13 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 of \$1 billion. Diversification to reduce risk is evident in the allocation of investment assets. FRS holds a wide range of investments such as domestic and international stocks, investment grade and high-yield bonds, and holdings in 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 selected. For fiscal 2011, FRS assets experienced a 18.7% return, net of fees, with three and five year averages of 1.3% and 3.0%, respectively. See the MD&A for a more detailed discussion of FRS' investment performance.

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 2010-11 was 21.5% and for 2011-2012 will be as follows:

	<u>Above Poverty</u>	<u>Below Poverty</u>
Employee	10%	8%
Employer	23.25%	25.25%

As of June 30, 2011, FRS was 74.33% funded compared to 74.21 % as of June 30, 2010. Although relatively unchanged from the prior year, FRS experienced favorable market conditions along with favorable liability experience. These items were offset by the recognition of a portion of the losses from 2008-2009 from the five year smoothing of the system's investment returns. Net assets held in trust to pay pension benefits at June 30, 2011 totaled \$1.0 billion.

Key Developments and Highlights

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

- Inside the office, FRS completed Phase 2 of the upgrade to its AS400 computer system. The new system provides enhanced stability, improved disaster recovery capabilities, and other valuable features allowing us to better serve our members.
- Regarding invested assets, FRS' investment portfolio achieved the highest return in the history of the system earning 18.7%. This return in addition to the previous year's return of 12.7% is crucial in helping the system regain the losses that occurred during 2008-2009. In addition, the system assets finished the year with a market value that exceeded the \$1 billion mark.

- On the judicial front, FRS is locked in a protracted battle against one of the largest banks in the country to recover invested funds that were lost due to alleged mismanagement and fraud. The amount in question equals about \$50-65 million. The bank has a team of lawyers that seem to be trying desperately to prevent this matter from reaching a jury. Fortunately, so far, FRS has been successful in defeating their delay tactics and evasive strategies. If FRS prevails, the recovered assets could have the impact of reducing the employer contribution rate by a material amount.

Acknowledgements and Considerations

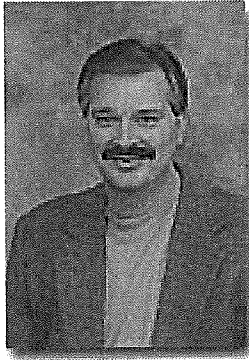
The commitment to hard work demonstrated by the FRS staff made the preparation of this report possible. The FRS staff and I would like to thank the board of trustees for its support and dedication.

Steven Stockstill
Executive Director

Board of Trustees



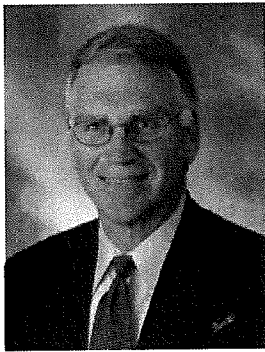
Charlie Fredieu
Board Chairman
Retiree Representative



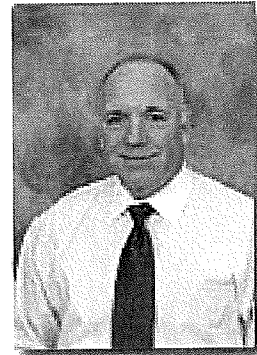
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Board Vice Chairman
PFFA Representative



Mayor Mayson Foster
LMA Representative



Mayor Jimmy Durbin
LMA Representative



Chief Paul Smith
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Honorable John N Kennedy
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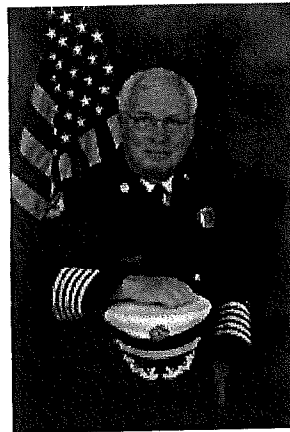
Honorable Kevin Pearson
Chairman, House Retirement



Honorable Butch Gautreaux
Chairman, Senate Retirement



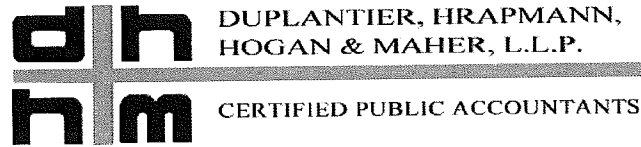
Paul Rainwater
Division of Administration



Chief Jerry Tarleton
Fire Chief Representative

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LINDSAY J. CALUB, C.P.A., L.L.C.
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INDEPENDENT AUDITOR'S REPORT

December 28, 2011

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 as of June 30, 2011 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our 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, 2011 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2011 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 19 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 the required supplementary information 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Firefighters' Retirement System's financial statements as a whole. The required statistical information on page 45 and the supplemental schedules on pages 46 – 47 are presented for the purposes of additional analysis and are not a part of the basic financial statements. The required statistical information for the years ending June 30, 2010-2011 has not been subjected to 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. The required statistical information for the years ending June 30, 2006-2009 was audited by other auditors who did not express an opinion on it. The supplemental schedules for the year ending June 30, 2011 have 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 taken 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



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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON A
FINANCIAL STATEMENT AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

December 28, 2011

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

We have audited the financial statements of the Firefighters' Retirement System, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. 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

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.

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. However, we identified have a deficiency in internal control over financial reporting, described in the accompanying schedule of findings as finding 11-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

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

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, 2011. Please review it in conjunction with the Financial Statements which begin on page 20.

- ❖ FRS' net assets held in trust increased by \$183 million, or 19%.
- ❖ FRS' investment holdings increased from \$918 million to \$1 billion which is an increase of \$111 million or 12%.
- ❖ The rate of return on the estimated fair value of FRS investments was 18.7%, net of fees in 2011 as compared to 12.7% for 2010.
- ❖ The system's funded ratio increased slightly to 74.33% in 2011 from 74.21% in 2010.
- ❖ The unfunded actuarial accrued liability increased from \$396 million in 2010 to \$416 million in 2011, an increase of \$20 million or 5%.
- ❖ Contributions to FRS increased \$15 million year over year while benefit and disability payments increased \$3.3 million.

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 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, 2011. 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.

FIREFIGHTERS' RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS

TABLE 1
PLAN NET ASSETS
(in thousands)

	2011	2010
Cash and Investments	\$1,098,395	\$973,423
Receivables	78,555	21,444
Capital Assets	789	778
Notes Receivable	3,317	3,812
Prepaid Expense and Other	246	136
Total Assets	\$1,181,302	\$999,593
Liabilities	15,681	27,818
Total Net Assets	\$1,165,621	\$971,775
Non Controlling Interest	(11,139)	0
Net Assets Held in Trust for Pension Benefits	\$1,154,482	\$971,775

FRS' net assets increased \$183 million year over year. This increase was primarily a result of an increase in investment holdings of \$111 million and an increase in receivables of \$57 million.

STATEMENT OF CHANGES IN PLAN NET ASSETS

TABLE 2
ADDITIONS TO PLAN NET ASSETS
(in thousands)

	2011	2010
Contributions	\$79,430	\$63,481
Net Investment Income	169,445	97,155
Other Operating Revenues	264	279
Total Additions	\$249,139	\$160,915

Additions to FRS' net assets include employer and member contributions, investment income, and an allocation from the insurance premium tax fund. Employer contributions increased \$16m and net investment income increased \$72 million year over year.

FIREFIGHTERS' RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS (continued)

TABLE 3
DEDUCTIONS FROM PLAN NET ASSETS
(in thousands)

	2011	2010
Retirement Benefits	\$59,900	\$56,737
Disability Benefits	4,755	4,663
Refunds	1,072	794
Net Transfers	(260)	(203)
Administrative Expenses	965	861
Total Deductions	\$66,432	\$62,852

Deductions from plan assets increased \$3.6 million or 6%. This increase was primarily due to an increase in benefit payments of \$3.1 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, 2011, for the trailing three years, and trailing five years.

FIREFIGHTERS' RETIREMENT SYSTEM

TABLE 4
INVESTMENT RETURNS SUMMARY

	Current Year	Trailing 3 Years	Trailing 5 Years	Since Inception
Equities				
US Large Cap	28.8%	10.0%	8.3%	20.3%
SMID Cap	36.6%	7.5%	5.1%	27.6%
Micro Cap	26.2%	7.2%	N/A	5.4%
Energy	65.1%	-6.2%	8.8%	4.0%
International Equity				
International Equity	34.8%	1.5%	3.8%	5.4%
Fixed Income				
Core	6.2%	8.8%	8.1%	8.5%
Distressed Debt	4.9%	-12.4%	-6.2%	2.9%
Emerging Markets	15.8%	6.9%	9.4%	9.4%
Alternatives				
Hedge Funds	7.1%	6.6%	4.3%	8.1%
Private Equity	N/A	N/A	N/A	8.1%
Real Estate	N/A	N/A	N/A	3.1%
TOTAL FUND	18.7%	1.3%	3.0%	6.2%

FIREFIGHTERS' RETIREMENT SYSTEM

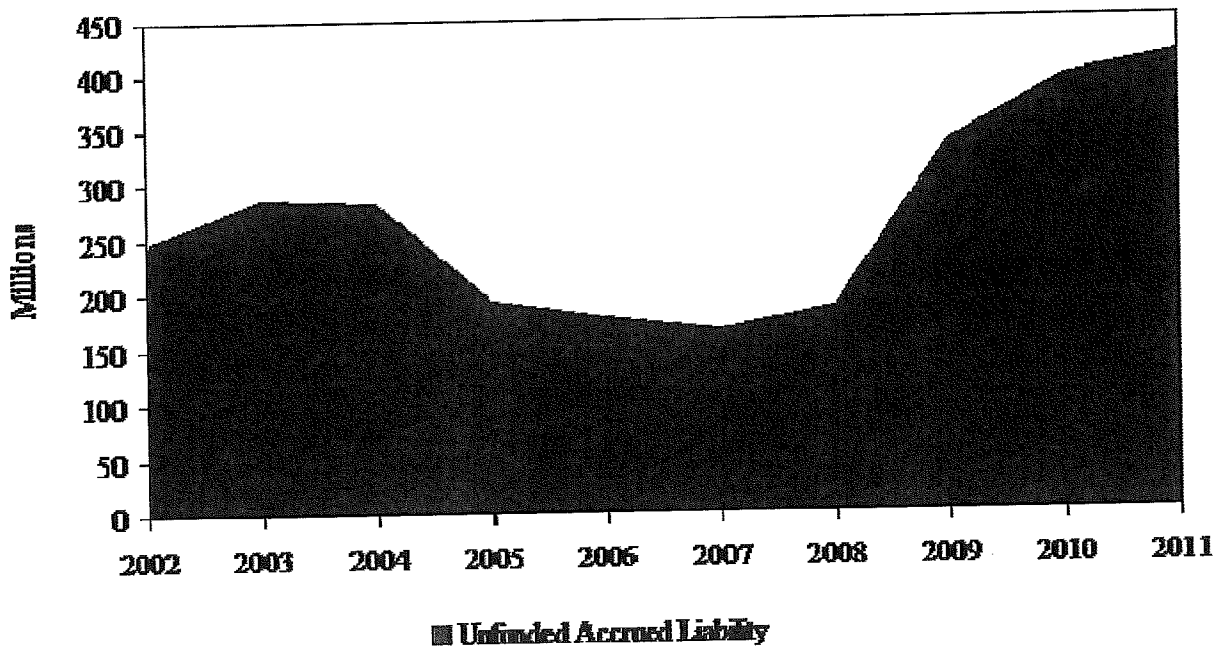
FUNDING STATUS

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 PLANS' 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, Kelli Chandler, at 3100 Brentwood Drive, Baton Rouge, Louisiana 70809.

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENT OF PLAN NET ASSETS

JUNE 30, 2011

ASSETS

Cash and cash equivalents	<u>\$69,596,317</u>
Receivables	
Employer	3,498,023
Employee	1,255,418
Interest and dividends	4,645,910
Forward currency contracts	11,874,517
Spot currency contracts	124,202
Pending investment receivables	1,879,986
Investment receivables	63,821,660
Less: Allowance for doubtful accounts	<u>(8,544,478)</u>
Net Investment Receivable	<u>55,277,181</u>
Total receivables	78,555,237
Investments at fair value	
Domestic equities	203,607,623
Foreign equities	185,431,298
Corporate bonds	57,594,723
Foreign obligations	8,133,066
US Government agency securities	15,922,044
Mutual funds	148,143,631
Asset backed securities	26,211,075
Emerging market debt	39,092,234
Private equity	105,397,673
Real estate	98,414,367
Hedge funds	131,970,006
Note Receivable	<u>8,880,589</u>
Total investments at fair value	<u>1,028,798,329</u>
Property, building, equipment and fixtures, net of accumulated depreciation of \$503,330	789,235
7% notes receivable from merged systems	3,317,170
Prepaid expenses and other	<u>246,097</u>
TOTAL ASSETS	\$1,181,302,385

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENT OF PLAN NET ASSETS

JUNE 30, 2011

LIABILITIES

Accounts payable	\$1,177,355
Foreign currency contracts	12,149,075
Spot currency contracts	123,943
Investment payables	2,230,832

TOTAL LIABILITIES

15,681,205

TOTAL NET ASSETS

1,165,621,180

Non Controlling Interest

(11,139,140)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

\$1,154,482,040

The accompanying notes are an integral part of this statement.

FIREFIGHTERS' RETIREMENT SYSTEM

CONSOLIDATED STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011

ADDITIONS

Contributions	
Employer	\$42,158,611
Employee	15,647,266
State appropriations from insurance premium taxes	21,624,265
Total contributions	<u>79,430,142</u>
Investment Income	
Net appreciation in fair value of investments	154,835,409
Interest and dividends	22,061,161
Less investment expenses	8,330,522
Net investment income	168,566,048
Plus: Net loss attributable to non controlling interest	879,078
Net investment income attributable to Pension Fund	<u>169,445,126</u>
Interest from notes receivable	235,723
Rental income	28,391
Total additions	249,139,382

DEDUCTIONS

Retirement benefits	59,900,086
Disability benefits	4,754,632
Refunds to terminated employees	1,072,332
Transfers to (from) other systems	(259,592)
Administrative expenses	964,964
Total deductions	66,432,422

NET INCREASE

182,706,960

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	971,775,080
End of year	<u>\$1,154,482,040</u>

The accompanying notes are an integral part of this statement.

FIREFIGHTERS' RETIREMENT SYSTEM

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

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Plan Description (continued)

Treasurer's office, one from the Division of Administration and the chairmen of the Senate and House Retirement Committees.

Plan Membership

Employer and employee membership data at June 30, 2011 is as follows:

Employer Members

Cities	60
Parishes	15
Special districts	<u>50</u>
Total employer members	<u>125</u>

Employee Members

Current retirees and beneficiaries	1,802
Drop participants	225
Terminated vested participants	68
Terminated due a refund	418
Active plan participants	<u>4,020</u>
Total employee members	<u>6,533</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. 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.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Plan Description (continued)

2. At death, their beneficiary will receive a life annuity equal to the employee's reduced retirement allowance.
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 $2\frac{1}{2}\%$ 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 not eligible to retire 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% 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, re-

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Plan Description (continued)

ardless of age, shall receive the benefits as long as they are dependent on the surviving spouse.

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.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

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, 2011, \$12,504,994 was credited to deferred retirement option plan accounts on behalf of 225 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, 2011, \$2,474,457 was credited to IBO plan accounts on behalf of 31 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

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies (continued)

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 54% ownership in a limited partnership. 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 40 years for buildings and 3 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.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

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 employees' 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 8% for the year ended June 30, 2011. The contributions are deducted from the member's salary and remitted by the participating agency. For the year ended June 30, 2011, employer contributions were 21.5% of covered payroll.

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. Overall, the System is 74.33% funded.

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 per the actuarial report as of June 30, 2011 is \$128,392,414 and is fully funded.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Contributions and Reserves (continued)

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 Pension Accumulation Reserve per the actuarial report as of June 30, 2011 is \$335,996,200 and is 76% funded.

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 per the actuarial report as of June 30, 2011 is \$603,863,398 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 three years, and upon termination may receive his benefits in a lump sum payment or by a true annuity. The deferred retirement option per the actuarial report as of June 30, 2011 is \$83,755,571 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 per the actuarial report as of June 30, 2011 is \$2,474,457 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.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Contributions and Reserves (continued)

The schedule below reflects the funded status and progress of the System for the fiscal year ended June 30, 2011.

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)
06/30/11	\$1,204,830,245	\$1,621,007,988	\$416,177,743	74.33%	\$193,136,985	215%

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

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Required Contributions (continued)

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 \$58 million (\$42 million employer and \$16 million employee), and \$21 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.

Louisiana Asset Management Pool

The System invested \$36 million at June 30, 2011, 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 invest-

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Cash and Investments (continued)

ments. 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>.

Realized and Unrealized Gains and Losses

During the year, the System's investments (including those bought, sold, and held during the year) appreciated in value by \$155 million which was comprised of \$41 million in realized gains and \$114 in unrealized gains for the year ended June 30, 2011.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Cash and Investments (continued)

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, 2011:

<u>Investment Type</u>	<u>Fair Value</u>
US Government agency bonds	\$15,922,044
Corporate bonds (domestic & foreign)	65,727,789
Equities (domestic & foreign)	389,038,921
Mutual Funds	148,143,631
Asset backed securities	26,211,075
Emerging market debt	39,092,234
Private equity	105,397,673
Real estate	98,414,367
Hedge funds	131,970,006
Notes Receivable	8,880,589
TOTAL	<u>\$1,028,798,329</u>

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 ex-

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Cash and Investments (continued)

posed 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, 2011.

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, 2011.

Standard and Poor's Rating	Fair Value
AAA	\$34,359
AA+	1,384,527
AA	1,658,998
AA-	2,113,148
A+	6,035,819
A	14,985,018
A-	8,097,290
BBB+	8,130,102
BBB	12,295,194
BBB-	7,933,728
BB	1,010,000
B	874,575
CCC-	793,555
Not rated	16,303,520
TOTAL	\$81,649,833

At June 30, 2011, the System held unrated mutual funds with a fair value of \$59,758,355. At June 30, 2011, the System held cash equivalents with a fair value of \$61,500,270, \$60,578,639 were rated AAA and \$921,631 were unrated, respectively.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Cash and Investments (continued)

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, 2011, the System had exposure of less than five percent in any single investment issue.

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 investments 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, 2011:

<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>
Asset back obligations	\$415,834	\$0	\$0	\$0	\$415,834
Convertible corp bonds and notes	1,668,130	0	793,555	0	874,575
Corporate bonds and notes	55,510,759	2,338,503	22,058,707	20,359,171	10,754,378
Federal agency securities	5,944,298	0	23,010	25,856	5,895,432
Foreign bonds	8,133,065	0	2,593,052	4,315,055	1,224,958
Government national mortgage association pools	9,977,746	0	9,971	0	9,967,775

FIREFIGHTERS' RETIREMENT SYSTEM

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, 2011, the following derivative instruments were outstanding:

Currency Denomination	FORWARD CONTRACTS				Unrealized Gain (Loss) at 6/30/2011
	Receivable Contract Notional Value	Receivable Contract Fair Value	Payable Contract Notional Value	Payable Contract Fair Value	
US Dollar	\$352,857	\$352,857	N/A	N/A	\$-
Euro	1,415,325	1,432,083	N/A	N/A	16,758
US Dollar	2,592,932	2,592,932	N/A	N/A	-
US Dollar	746,326	746,326	N/A	N/A	-
US Dollar	225,952	225,952	N/A	N/A	-
US Dollar	815,916	815,916	N/A	N/A	-
US Dollar	1,858,499	1,858,499	N/A	N/A	-
US Dollar	3,625,805	3,625,805	N/A	N/A	-
Norwegian Kroner	4,074	4,123	N/A	N/A	49
Australian Dollar	50,760	51,687	N/A	N/A	927
Euro	84,717	85,596	N/A	N/A	879
US Dollar	82,741	82,741	N/A	N/A	-
Australian Dollar	N/A	N/A	352,857	360,470	(7,613)
US Dollar	N/A	N/A	1,415,325	1,415,325	-
Euro	N/A	N/A	2,592,932	2,648,531	(55,599)
Euro	N/A	N/A	746,326	758,460	(12,134)
Euro	N/A	N/A	225,952	230,521	(4,569)
Euro	N/A	N/A	815,916	823,620	(7,704)
Swiss Franc	N/A	N/A	1,858,499	2,042,819	(184,320)
British Pound	N/A	N/A	3,625,805	3,646,566	(20,761)
US Dollar	N/A	N/A	4,074	4,074	-
US Dollar	N/A	N/A	50,760	50,760	-
US Dollar	N/A	N/A	84,717	84,717	0
Japanese Yen	N/A	N/A	82,741	83,212	(471)
Total		\$11,874,517		\$12,149,075	(\$274,558)

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 con-

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

Cash and Investments (continued)

tracts 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, Norwegian Krone, 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.

Alternative Investments

At June 30, 2011 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, 2011, these investments had a cost basis of \$191,850,865 and an estimated fair value of \$203,812,040. The total amount committed for these type of investments is \$220,368,000 with \$174,765,960 being contributed to date. In addition, FRS had hedge fund investments with a cost basis of \$101,512,764 and a fair value of \$131,970,006. All commitments for hedge funds have been satisfied.

6. NOTES RECEIVABLE FROM MERGED SYSTEMS

7% notes receivables from merged systems at June 30, 2011 consisted of the following:

<u>System</u>	<u>Annual Payments</u> <u>(Including Interest)</u>	<u>Final Payment Due</u>	<u>Balance</u>
Kenner	95,005	April 1, 2029	964,024
Kenner Retirees	142,697	April 1, 2029	1,435,406
New Iberia Retirees	110,352	January 1, 2013	199,519
West Monroe	<u>171,340</u>	January 1, 2015	<u>718,221</u>
	<u>\$ 519,394</u>		<u>\$ 3,317,170</u>

FIREFIGHTERS' RETIREMENT SYSTEM

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, 2010	Additions	Retirement	Balance June 30, 2011
Land	\$260,107	-	-	\$260,107
Building	734,720	-	-	734,720
Equipment	40,956	-	-	40,956
Furniture & Fixtures	57,217	-	-	57,217
Computer Equipment	<u>150,607</u>	<u>48,958</u>	<u>-</u>	<u>199,565</u>
	<u>1,243,607</u>	<u>48,958</u>	<u>-</u>	<u>1,292,565</u>
Accumulated depreciation	<u>465,186</u>	<u>38,144</u>	<u>-</u>	<u>503,330</u>
Net property and equipment	<u>\$778,421</u>	<u>\$10,814</u>	<u>-</u>	<u>\$789,235</u>

Depreciation expenses for the year ended June 30, 2011 was \$38,144.

8. CONCENTRATIONS OF CREDIT RISKS

FRS has notes receivable from municipalities within the state. The collectibility 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 collectibility 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 operating as a tax qualified plan and is currently seeking a formal determination of this status from the Internal Revenue Service.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

10. LITIGATION

In 2009, FRS filed a lawsuit versus Regions Morgan Keegan, 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 \$50-65 million. The lawsuit is styled as *Firefighters' Retirement System v. Regions Morgan Keegan, et al.*, suit number 567,874, 19th Judicial District Court, East Baton Rouge Parish. The lawsuit continued throughout the entirety of this fiscal year.

Additionally, 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 requested certification of a class action, thereby making the lawsuit applicable to all similarly situated firefighters in the state of Louisiana, if the class is certified by the Court. The lawsuit has a potential quantum of approximately \$50 million. The lawsuit is in the motion 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 is styled as *Duty v. City of Natchitoches and Firefighters' Retirement System*, suit number 81,283, 10th Judicial District Court, Natchitoches Parish. 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, 2011
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%

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Consolidated Financial Statements

12. Notes Receivable

Franchise Equity Capital Partners II, LP (54%) owned by the System) has the following notes receivable as of June 30, 2011.

Number of shares/face value of debt		Fair Value
\$ 2,231,163	American Huts, Inc. 23% Senior Promissory Note due 3/4/2017 (11.1%)	\$2,742,720
\$ 1,017,412	Carpe Diem Pizza II, LLC 14.25% Senior Promissory Note due 12/14/2023 (5.0%)	1,237,614
\$ 854,887	Dessert First Pizza, Inc.; North County Pizza, Inc. 15% Senior Promissory Note due 12/23/2013	901,753
\$746,412	Fresh Meadows Holdings, Inc. 19.5% Senior Promissory Note due 2/25/2016 (3.3%)	840,120
\$670,588	Enitor Enterprises, LLC 15% Senior Promissory Note due 9/28/2018 (3.3%)	802,105
\$286,612	JRDH Enterprises, LLC 10% Senior Promissory Note due 4/19/2015 (1.1%)	281,319
\$375,247	Scarborough BBQ, LLC 13% Senior Promissory Note due 4/23/2015 (1.1%)	270,035
\$299,666	Springfield BBQ, LLC 13% Senior Promissory Note due 4/23/2015 (1.1%)	215,646
\$106,433	LMM Services, LLC 10% Senior Promissory Note due 8/20/2015 (0.4%)	101,983
\$ 1,198,125	Dessert First Pizza, Inc.; North County Pizza Inc. 18.25% Subordinated Promissory Note due 12/23/2018 (3.5%)	869,647
\$1,235,294	Great Lakes Quick Lube Limited Partnership Subordinated Promissory Note (2.5%)	617,647
\$183,529	Starlin & Rahvin, Inc. 15.5% Subordinated Promissory Note due 11/25/2013 (0.0%)	-
	Total Promissory Notes	\$8,880,589

FIREFIGHTERS' RETIREMENT SYSTEM

FIREFIGHTERS' RETIREMENT SYSTEM

SUPPLEMENTARY SCHEDULES

FIREFIGHTERS' RETIREMENT SYSTEM

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, 2011

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)
06/30/11	\$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%
06/30/06	911,329,622	1,089,280,137	177,950,515	83.66%	147,631,087	120.54%

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS AND OTHER CONTRIBUTING ENTITIES

June 30, 2011

Year Ended June 30	Employer Contributions		State of Louisiana	
	Annual Required Contribution	Percentage Contribution	Annual Required Contribution	Percentage Contribution
2011	\$64,302,709	65.56%	\$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%
2006	22,132,922	114.00%	18,119,048	100.00%

FIREFIGHTERS' RETIREMENT SYSTEM

SUPPLEMENTARY INFORMATION
TRUSTEES PER DIEM
For the Year Ended June 30, 2011

	Number of Meetings	Per Diem
Charlie Fredieu	12	\$900
Paul Smith	11	450
Stacy Birdwell	12	900
Treasurer John Kennedy or designee	11	0
Commissioner Paul Rainwater or designee	13	0
Senator Butch Gauthreaux or designee	0	0
Representative Kevin Pearson or designee	0	0
Mayor Mayson Foster	12	900
Mayor Jimmy Durbin	13	975
Sammy Halphen	5	300
Jerry Tarleton	7	0
Total		<u>\$4,425</u>

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.

FIREFIGHTERS' RETIREMENT SYSTEM

SUPPLEMENTARY INFORMATION ADMINISTRATIVE EXPENSE SCHEDULE For the Year Ended June 30, 2011

Human Resource:			
Staff Salaries	432,568		
Payroll Taxes	6,209		
Employee Retirement Expense	89,567		
Insurance	41,001		
Total Human Resource			569,345
Professional Services:			
Actuarial	45,500		
IT Support	52,049		
Accounting	47,000		
Legal Fees	27,855		
Investigative Services	966		
Medical Exams	29,624		
Contract Services	866		
Bank Service Charge	6,957		
Total Professional Services			210,817
Communication:			
Printing	4,126		
Telephone	5,533		
Postage	27,115		
Supplies	13,047		
Dues and Subscriptions	7,436		
Advertising	5,384		
Total Communication			62,641
Travel			
Board Member Per Diem	4,425		
Travel	27,168		
Education Seminars	2,055		
Total Travel			33,648
Building and Equipment			
Utilities	12,813		
Building Maintenance	26,085		
Equipment Maintenance	4,574		
Depreciation	38,144		
Insurance - General	6,140		
Miscellaneous Expense	757		
Total Building and Equipment			88,513
Total Administrative Expense			\$964,964

FIREFIGHTERS' RETIREMENT SYSTEM
SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion issued on the financial statements of Firefighters' Retirement System for the year ended June 30, 2011 was unqualified.

2. Internal Control:

Significant Deficiency

11-01 We noted that the System's data base 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 data base 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.

3. Compliance and Other Matters:

None.

4. Status of Prior Year Comments:

10-01 We noted that the System's data base 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 data base 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 repeated in the current year as finding 11-01.

10-02 In reviewing the system of cash receipts, we noted a lack of segregation of duties in the cash receipts process. One employee controls the entire process, except for reconciliation of the bank account. A lack of segregation of duties in this area increases the chance that the System's funds could be misappropriated. We recommend that the System review their cash receipts cycle in order to implement better segregation of duties.

This finding was resolved in the current year.