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FIREFIGHTERS' RETIREMENT SYSTEM

FINANCIAL REPORT

June 30, 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date NOV 1 8 1998

Provost Salter Harper & Alford LLC
Certified Public Accountants
Business Advisors
8550 United Plaza Boulevard, Suite 600, Baton Rouge, Louisiana 70809, Phone: (225) 924-1772 / Facsimile: (225) 927-9075

FIREFIGHTERS' RETIREMENT SYSTEM

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Provost Salter Harper & Alford LLC
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

We have audited the statement of plan net assets of the Firefighters' Retirement System as of June 30, 1998, and the related statement of changes in plan assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Firefighters' Retirement System as of June 30, 1998, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 1998 on our consideration of the Firefighters' Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

We have also previously audited, in accordance with generally accepted auditing standards, the financial statements as of June 30, 1997, 1996, 1995, 1994, 1993, 1992 and 1991 (none of which are presented herein); and we expressed unqualified opinions on those financial statements.

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In our opinion, the information set forth in the required supplementary information for each of the seven years in the period ended June 30, 1998, appearing on pages 14 through 16, is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

Our audit was conducted for the purposes of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information schedule on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements of the Firefighters' Retirement System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

October 28, 1998

Exhibit A

FIREFIGHTERS' RETIREMENT SYSTEM

Statement of Plan Net Assets	***June 30, 1998***
ASSETS	
Cash and Cash Equivalents	$ 65,131,137
Receivables	
Employer	601,039
Employee	543,965
Interest and dividends	4,068,721
Total receivables	5,213,725
Investments at Fair Value	
U. S. Government Securities	106,492,624
Corporate bonds	88,854,886
Common stocks	230,861,629
Total investments at fair value	426,209,139
7% notes receivable from merged systems	39,004,466
Property, building, equipment and fixtures, net of accumulated depreciation of $110,494	1,703,223
Prepaid expense and other	3,079
Total Assets	537,264,769
Liabilities - Accounts Payable	(438,060)
Net assets held in trust for pension benefits (a schedule of funding *progress is presented on page 15.)*	$ 536,826,709

See Notes to Financial Statements.

Exhibit B

FIREFIGHTERS' RETIREMENT SYSTEM

Statement of Changes In Plan Assets — *Year Ended June 30, 1998*

Additions	
Contributions	
Employer	$ 7,065,758
Employee	6,291,301
Total contributions	13,357,059
Investment income	
Net appreciation in fair value of investments	33,804,365
Interest and dividends	16,529,545
	50,333,910
Less investment expenses	(1,430,369)
Net investment income	48,903,541
Interest from notes receivable	4,787,385
State appropriations from insurance premium taxes	9,648,122
Assets transferred from merged system	4,017,332
Total Additions	80,713,439
Deductions	
Annuity benefits	17,196,165
Disability benefits	1,135,371
Refunds to terminated employees	505,954
Administrative expenses	393,983
Total Deductions	19,231,473
Net Increase	61,481,966
Net Assets Held In Trust For Pension Benefits	
Beginning of year	475,344,743
End of year	$ 536,826,709

See Notes to Financial Statements.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Financial Statements *June 30, 1998*

1. Description of Plan

The following brief description of the Firefighters' Retirement System Pension Plan (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General. The Plan is a cost sharing, multiple-employer, 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 2269, effective January 1, 1990.

Plan Membership. Employer and employee membership data at June 30, 1998 is as follows:

Employer Members	
Cities	43
Parishes	6
Special districts	28
Total employer members	77
Employee Members	
Current retirees and beneficiaries	915
Terminated vested participants	20
Terminated due a refund	45
Active plan participants	2,706
Total employee members	3,686

Plan Benefits.

Pension 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 30% 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 four options at retirement.

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 based on their reduced retirement allowance.

3. At death, their beneficiary will receive a life annuity equal to ½ of their 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 their retirement allowance.

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 ⅔ 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%, nor more than 50% 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.

3. If an employee, who is eligible to retire dies before retiring, the designated beneficiary shall be paid under option 2, above.

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

1. Any member totally disabled from injury received in the line of duty, even though the member has less than 5 years creditable service, 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. 11:2258 may apply for retirement under the provisions of this section and shall be retired on a 75% of the retirement salary to which he would be entitled under R. S. 11:2256 if he were eligible thereunder or 25% of the member's average salary, whichever is greater.

3. 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.

Deferred Retirement Option Plan. After completing 20 years of creditable service, a member may elect to participate in the deferred retirement option plan for up to 36 months.

Upon commencement of participation in the 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 retirement benefit.

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

No payments may be made from the deferred retirement option plan account until the participant retires.

During the year ended June 30, 1998, $6,719,369 was credited to deferred retirement option plan accounts on behalf of 350 participants.

2. Summary of Significant Accounting and Financial Reporting Policies

Governmental accounting principles and practices are promulgated and established by the Governmental Accounting Standards Board (GASB). The GASB has issued a *Codification of Governmental Accounting and Financial Reporting Standards.* This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such pronouncements.

In November of 1994, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The statement was effective for years beginning after June 15, 1996. The System adopted Statement No. 25 effective July 1, 1995.

The Statement establishes a financial reporting framework for *defined benefit pension plans* that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

Plans are required to present two financial statements:

(a) *statement of plan net assets* that provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets; and
(b) a *statement of changes in plan net assets* that provides information about the year to year changes in plan net assets.

The requirements for the notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations.

Information in the second category should be included, for a minimum of six years, in two schedules of historical trend information that should be presented as required supplementary information. The required schedules are (a) a *schedule of funding progress* that reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and (b) a *schedule of employer contributions* that provides information about the annual required contributions of the employers (ARC) and the percentage of the ARC recognized by the plan as contributed. Note disclosures related to the required schedules should be presented and should include the actuarial methods and significant assumptions used for financial reporting.

Basis of Accounting. The System's financial statements are prepared 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.

Cash and Cash Equivalents. Cash and cash equivalents includes demand deposits in banks and temporary cash investments in money market accounts with the trust department of the investment custodian bank. The money market balances consist of government backed pooled funds.

Valuation of Investments. All investments are fixed-income securities and common stock and are reported at fair market value based on quoted market prices.

Investment Income. Interest income is recognized on the accrual basis as earned.

Gains and losses on exchanges of fixed-income securities and common stocks are recognized using the trade date basis.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates. The actuarial accrued liability is based on estimates and assumptions as explained in footnote 4 and the supplementary information.

3. Contributions and Reserves

Contributions. Contributions for all members are established by statute at 8.0% of earnable compensation. The contributions are deducted from the member's salary and remitted by the participating agency.

Administrative costs of the retirement system are financed through employer contributions.

According to state statute, contributions for all employers are actuarially determined each year. For the year ended June 30, 1998, employer contributions were 9% of member's earnings. The System also receives funds from insurance premium taxes each year as appropriated by the Legislature. This income is used as additional employer contributions.

Reserves. Use of the term "reserve" by the retirement System indicates that a portion of the fund balances is legally restricted for a specific future use. The nature and purpose of these reserves are explained below:

Expense. 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 retirement funds and is made as needed.

Annuity Savings. The Annuity Savings is credited with contributions made by members of the System. When a member terminates his service, or upon his death before qualifying for a benefit, the refund of his contributions is made from this reserve. If a member dies and there is a survivor who is eligible for a benefit, the amount of the member's accumulated contributions is transferred from the Annuity Savings to the Annuity Reserve to provide part of the benefits. The Annuity Savings as of June 30, 1998 is $50,257,354. The Annuity Savings is fully funded.

Pension Accumulation Reserve. The Pension Accumulation Reserve consists of contributions paid by employers, interest 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 as of June 30, 1998 is $267,541,896. The Pension Accumulation Reserve is 87.5% 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 as of June 30, 1998 is $194,188,323. The Annuity Reserve 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 retire. 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 as of June 30, 1998 is $24,839,136. The Deferred Retirement Option account is fully funded.

4. Required Contributions

FRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial funding method. FRS amortizes the unfunded liability over a closed 30 year period based on level payments. Subsequent changes to the unfunded liability are amortized over 15 year periods if related to gains and losses, changes in assumptions, or changes in benefits. Amortization of unfunded liabilities arising from mergers is over 30 years unless the actuarial committee specifies a shorter period.

Contributions totaling $23,005,181 ($16,713,880 employer and $6,291,301 employee) were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 1997. These contributions consisted of (a) normal cost of $16,775,627 and (b) amortization of the unfunded actuarial liability of $4,632,828.

Significant actuarial assumptions used to compute contributions requirements are: (1) a rate of return on the investment of present and future assets of 7% per year compounded annually; (2) projected salary increases that vary according to years of service ranging from 8.33% in the first year of service to 4% for service after 14 years; (3) pre- and post-mortality life expectancies of participants based on the 1983 Group Annuity Mortality Table; (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); and (5) rates of disability (increasing from 0.1% at age 35 and below to 2.0% at age 54 and above). The foregoing actuarial assumptions are based on the presumptions that the plan will continue. Basic valuation assumptions are the same as those utilized for the prior year.

5. *Deposits and Investments*

Deposits. Deposits are carried at cost. The carrying amount of deposits is separately displayed on the balance sheet as "cash and cash equivalents". At year end, the carrying amount of the System's deposits was $65,131,137 and the bank balance was $65,199,218. All of the bank balance was covered by federal depository insurance or collateral pledged in the name of the System or the treasurer for the State of Louisiana (GASB category 3).

Investments. Statutes authorize the System to invest in a prudent manner and limit investments in common stocks to 55% of the total portfolio. All of the Plan's investments are insured or registered and held by a bank-administered trust fund or a Securities and Exchange Commission registered broker-dealer (GASB category 1). Investments at cost and fair value as determined by quoted market prices at June 30, 1998, were:

	Amortized Cost	Fair Value
U. S. Government Securities	$ 103,166,929	$ 106,492,624
Corporate bonds	86,706,920	88,854,886
Common stock	206,673,310	230,861,629
	$ 396,547,159	$ 426,209,139

6. 7% Notes Receivable From Merged Systems

7% notes receivable from merged Systems at June 30, 1998 consisted of the following:

System	Annual Payments (Including Interest)	Final Payment Due	Balance
Alexandria	$ 1,445,107	May 1, 2002	$ 16,574,420
Bastrop	69,910	December 7, 2010	584,280
Bogalusa	127,069	January 1, 2010	1,009,241
Houma	559,095	July 1, 2024	3,569,206
Lake Charles	876,647	July 1, 2016	9,060,672
Monroe	454,958	January 15, 2011	3,853,589
Monroe retirees	94,336	March 1, 2001	234,679
New Iberia	166,288	November 4, 2010	1,389,776
New Iberia retirees	110,352	January 1, 2013	1,005,081
West Monroe	559,095	January 1, 2015	1,723,522
	$ 4,462,857		$ 39,004,466

During the year ended June 30, 1998, members were merged from cities who had previously been members of other statewide retirement systems. As a result of these transfers, the Firefighters' Retirement System received cash of $4,017,332.

7. Concentrations of Credit Risks

The Firefighters' Retirement System has notes receivable from cities 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, the Firefighters' Retirement System has concentrations of investments in U.S. government and agency securities as well as bonds and stocks of U. S. corporations. 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.

8. Risk Management

The Firefighters' Retirement System 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.

FIREFIGHTERS' RETIREMENT SYSTEM

Supplementary Information *June 30, 1998*

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

Valuation date	June 30, 1998
Actuarial cost method	Entry age
Amortization method	Level dollar - closed
Remaining amortization period	22 years
Asset valuation method	Market value adjusted to defer ½ of all realized and unrealized capital gains and losses accrued during the fiscal year.
Actuarial assumptions:	
Investment rate of return*	7%
Projected salary increase*	4% - 8.33%
Cost of living adjustments	Only those previously granted

*Includes inflation at 3.25%

FIREFIGHTERS' RETIREMENT SYSTEM

Schedules of Funding Progress *June 30, 1998*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/98	$ 519,924,527	$ 574,884,182	$ 54,959,655	90.4%	$ 79,171,364	69.4 %
6/30/97	457,733,340	520,367,341	62,634,001	88.0%	72,865,349	86.0 %
6/30/96	417,294,158	476,872,591	59,578,433	87.5%	68,320,303	87.2 %
6/30/95	364,434,304	412,055,990	47,621,686	88.4%	64,860,138	73.4 %
6/30/94	299,878,270	307,994,702	8,116,432	97.4%	44,292,446	18.3 %
6/30/93	287,119,697	279,070,995	(8,048,702)	102.9%	42,020,873	(19.2) %
6/30/92	243,020,190	227,378,340	(15,641,850)	106.9%	39,155,507	(39.9) %
6/30/91	225,008,143	206,788,041	(18,220,102)	108.8%	36,614,317	(49.8) %

Schedule 2

FIREFIGHTERS' RETIREMENT SYSTEM

Schedule of Employer Contributions And Other Contributing Entities *June 30, 1998*

	Employer Contributions		State of Louisiana	
Year Ended June 30	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
1998	$ 6,784,748	100%	$ 9,648,122	100%
1997	6,381,641	100%	8,960,220	100%
1996	6,236,450	100%	6,291,800	100%
1995	4,157,761	100%	2,531,417	100%
1994	3,903,460	100%	1,050,560	100%
1993	3,695,837	100%	5,745	100%
1992	3,588,933	100%	16,638	100%
1991	3,126,715	100%	1,534,811	100%

Schedule 3

FIREFIGHTERS' RETIREMENT SYSTEM

Trustees' Per Diem *Year Ended June 30, 1998*

	Number of Meetings	Per Diem
R. Brady Broussard	11	$ 825
William Desormeaux	14	1,050
Michael Hemphill	14	1,050
Gordon King	13	975
Donald Nugent	14	1,050
Margene McCoy	13	975
		$ 5,925

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

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

We have audited the financial statements of the Firefighters' Retirement System, State of Louisiana, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 28, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Firefighters' Retirement System, State of Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item number 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Firefighters' Retirement System, State of Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Firefighters' Retirement System, State of Louisiana's ability to record, process, summarize

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and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item number 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We noted other matters involving the internal control over financial reporting that we have reported to management of the Firefighters' Retirement System in a separate letter dated October 28, 1998.

This report is intended for the information of the Board of Trustees and management. However, this report is a matter of public record and its distribution is not limited.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

October 28, 1998

Finding 1

Condition – An unauthorized disbursement was made by the Firefighters' Retirement System and was detected by the administrative staff in their normal course of duties.

Criteria – Unauthorized employees should not prepare or sign checks.

Effect – Intentional or unintentional errors or irregularities could, and did occur.

Cause – An employee of the System prepared a check for $550 made payable to himself. He signed the check with a rubber signature stamp and cashed the check.

Recommendation – The signature stamps should be destroyed and a check signing machine with dual key control should be purchased if facsimile signatures must be used. We further recommend full cooperation with the Legislative Auditor, the East Baton Rouge Parish District Attorney's Office or any other regulatory authority to determine appropriate legal, criminal or disciplinary action.

Management Response – Restitution was made and the signature stamps are under lock and key with access limited to the administrator of the System and the Chairman of the Board of Trustees. The Board has authorized the purchase of a check signing machine with dual key controls. Furthermore, we will continue to cooperate with the appropriate regulatory authorities.

Finding 2

Condition – An unauthorized individual used a rubber signature stamp to make a disbursement.

Criteria - Access to the signature stamps should be controlled.

Effect – Unauthorized disbursements could occur.

Cause – Access to the stamps was not controlled.

Recommendation – The signature stamps should be destroyed and replaced by a check signing machine with dual key control.

Management Response – The signature stamps are under lock and key with access limited to the administrator of the System and the Chairman of the Board of Trustees. The Board has authorized the purchase of a check signing machine with dual key controls.

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

This letter is intended to confirm that the Board is fully informed about significant matters relating to the conduct of the annual audit of Firefighters Retirement System so that you can appropriately discharge your oversight responsibility and so that we comply with our obligations to you under professional standards. This letter is intended solely for the use of the Board of Trustees of Firefighters Retirement System.

The following summarizes various matters which must be communicated to you under generally accepted auditing standards.

The Auditor's Responsibility Under Generally Accepted Auditing Standards

We originally communicated to the Board of Trustees in our arrangement letter that the audit would be conducted in accordance with generally accepted auditing standards. An audit, as such, is not designed to include a detailed audit of all transactions nor to discover all defalcations, irregularities or illegal acts, should any exist. An audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable rather than absolute assurance about the financial statements. We believe that our audit accomplished those objectives.

Significant Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies and procedures used by the System. There were no changes in existing significant accounting policies and procedures during the current year which should be brought to your attention.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of the financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, including the estimated actuarial accrued liability, and we concur with the results of those estimates.

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Significant Audit Adjustments

There were 15 audit adjustments made from the original trial balance presented to us to begin our audit. We also accumulated some potential adjustments that collectively were considered immaterial and, therefore, were not made to the financial statements. We have discussed these potential adjustments with management.

Other Information in Documents Containing Audited Financial Statements

We have not been informed of any documents that contain your audited financial statements. If there were such documents, we have a responsibility to determine that financial information included in those documents is not materially inconsistent with the audited financial statements of the System.

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements or on the wording of our report on the financial statements.

Consultation With Other Accountants

We are not aware nor have we been informed of any consultations management had with other independent accountants about accounting or auditing matters. Also, there were no major issues discussed regarding the application of accounting principles or auditing standards in connection with our engagement.

Difficulties Encountered in Performing the Audit

We encountered no difficulty in the performance of the audit.

Material Contingencies

The financial statements reflect no disclosures associated with material contingencies and there were no matters we believe should be disclosed as such.

We would be pleased to respond to any questions you have about the foregoing or to discuss any other matter you would like to discuss.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

October 28, 1998

Provost Salter Harper & Alford LLC
Certified Public Accountants
Business Advisors

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

We have performed an audit of the financial statements of the Firefighters' Retirement System, State of Louisiana for the year ended June 30, 1998 and 1997, and have issued our report thereon dated October 28, 1998. In planning and performing our audit of the financial statements of the Firefighters' Retirement System, State of Louisiana, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on its internal control structure. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

Y2K Issues.

As you may have noticed in the news, there is a lot of discussion regarding what has become known as the Y2K issue. Y2K refers to the year 2000 and the impact that it will have on computer systems and anything that relies on date sensitive computer chips. The federal government is attempting to make everyone aware of potential problems and management needs to consider the possible ramifications for the Firefighters' Retirement System, State of Louisiana.

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Management's responsibility requires that they take reasonable steps to ensure that the System is prepared for the year 2000 date change and that the System will not be materially affected. Some of the risk implications of the year 2000 issue include:

- The substantial cost of updating or replacing information systems;
- Insurers may require exclusions for losses/damages attributable to the year 2000 issue;
- Operating losses or business failure, if there is extensive disruption to the System's ability to conduct business because of a year 2000 problem;
- The ability of suppliers, customers and service providers to meet their obligations to the System;
- The potential for litigation and regulatory intervention; and
- Whether current hardware will operate. In general, any personal computer that is a 486 or older generation will not be year 2000 compliant.

Management needs to assess the impact on the System and make plans to address these types of risks. Management also needs to consider any specific impacts on the financial statements. The review needs to encompass all System operations, including other entities, if applicable.

We would be happy to assist you in assessing the impact of the year 2000 issues if you desire.

Payroll Tax Liability

In performing our audit procedures, we noted that the payroll tax liability account has not been reconciled. The liability recorded is about $6,900 more than the amounts remitted. This indicates that the System may have withheld taxes from some benefit or DROP account payment and not deposited the tax with IRS. Management needs to reconcile this account and determine the reason for the difference and make the necessary corrections.

This report is intended solely for the information and use of the finance committee and the Board of Directors, management, and others within the organization.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

October 28, 1998

FIREFIGHTERS' RETIREMENT SYSTEM

P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (504) 925-4060 • Fax (504) 925-4062

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MARGENE McCOY
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VIC STELLY

November 11, 1998

Provost, Salter, Harper & Alford, L.L.C.
8550 United Plaza Boulevard, Suite 600
Baton Rouge, Louisiana 70809

This letter is in response to findings identified in our financial report as of June 30, 1998, and your letter to the Board of Trustees dated October 28, 1998.

Finding 1

Restitution was made and the signature stamps are under lock and key with access limited to the administrator of the System and the Chairman of the Board of Trustees. The Board has authorized the purchase of a check signing machine with dual key controls. Furthermore, we will continue to cooperate with the appropriate regulatory authorities.

Finding 2

The signature stamps are under lock and key with access limited to the administrator of the System and the Chairman of the Board of Trustees. The Board has authorized the purchase of a check signing machine with dual key controls.

Y2K Issues

We are aware of our responsibilities in connection with the Y2K issue and have taken appropriate actions to resolve any potential problems in connection with this matter.

Payroll Tax Liability

We will reconcile the account on a regular basis and make the necessary adjustments to accurately reflect the proper account balance.

We hope these responses fulfill the requirements requested by the Louisiana Legislative Auditor's Office.

Sincerely,

FIREFIGHTERS' RETIREMENT SYSTEM

Michael D. Hemphill

3100 Brentwood Drive, – Baton Rouge, Louisiana 70809-1752