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FIREFIGHTERS' PENSION AND RELIEF FUND OF THE CITY OF NEW ORLEANS

DECEMBER 31, 1998

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS

INDEX TO REPORT

DECEMBER 31, 1998

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

MICHAEL J. O'ROURKE, C.P.A.
WILLIAM G. STAMM, C.P.A.
CLIFFORD J. GIFFIN, JR., C.P.A.
DAVID A. BURGARD, C.P.A.
LINDSAY J. CALUB, C.P.A., L.L.C.
DAVID J. MUMFREY, C.P.A.
GUY L. DUPLANTIER, C.P.A.
BONNIE J. McAFEE, C.P.A.

MICHELLE H. CUNNINGHAM, C.P.A.
KENNETH J. BROOKS, C.P.A., ASSOCIATE

1340 Poydras St., Suite 2000 • New Orleans, LA 70112
(504) 586-8866
FAX (504) 525-5888
cpa@dhhmcpa.com

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

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

INDEPENDENT AUDITOR'S REPORT

May 5, 1999

Honorable Mayor and Council of
the City of New Orleans, Louisiana

We have audited the statements of plan net assets of the Firefighters' Pension and Relief Fund of the City of New Orleans New System and Old System as of December 31, 1998, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund'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 *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 financial position of the Firefighters' Pension and Relief Fund of the City of New Orleans New System and Old System as of December 31, 1998, and the results of operations and changes in net assets for the year then ended in conformity with generally accepted accounting principles.

We have audited the financial statements of the Firefighters' Pension and Relief Fund New System and Old System for the year ending December 31, 1998 and issued our unqualified opinion on such financial statements. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required statistical information and the supplemental schedules listed in the index to the report are presented for the purposes of additional analysis and are not a required part of the basic financial statements. We have not examined the financial statements of the Firefighters' Pension and Relief Fund New System and Old System for any period prior to the year ended December 31, 1996, except for the year ended December 31, 1994. Accordingly, we do not express an opinion or any other form of assurance on the required statistical information and supplemental schedules relating to any period prior to December 31, 1996, except for the year ended December 31, 1994. Such required statistical information and supplemental schedules for the years ending December 31, 1997, 1996 and 1994, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 1999 on our consideration of the Firefighters' Pension and Relief Fund of the City of New Orleans' internal control over financial reporting and our tests of its compliance with laws, regulations and contracts.

Duplantier, Hrapmann, Hogan & Maher LLP

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 1998

	New System			Old System		
	Regular Pensions	Restricted-DROP	Total	Regular Pensions	Restricted-DROP	Total
ASSETS:						
Cash (Note 5)	$ 207,343	$ 2,791	$ 210,134	$ 3,746,498	$ 1,395,177	$ 5,141,675
Prepaid insurance	--	--	--	61,371	--	61,371
Receivables:						
Accrued investment income	1,490,967	20,068	1,511,035	24,891	9,269	34,160
Assessments receivable	31,601	--	31,601	--	--	--
Due from other system	5,119	--	5,119	--	--	--
Investment receivable	285,917	3,848	289,765	385,920	143,715	529,635
Total receivables	1,813,604	23,916	1,837,520	410,811	152,984	563,795
Investments (at fair value): (Notes 1 and 5) (Page 16)						
Cash equivalents	11,014,059	148,243	11,162,302	2,696,017	1,003,983	3,700,000
Collateral held under Securities Lending Program (Notes 5 and 10)	10,812,444	--	10,812,444	--	--	--
Bonds	57,688,559	776,457	58,465,016	--	--	--
Stock	76,042,101	1,023,484	77,065,585	28,435	10,589	39,024
Mutual Funds	31,179,393	419,658	31,599,051	--	--	--
Notes receivable (Note 12)	2,970,025	39,975	3,010,000	--	--	--
Investment in partnership (Note 13)	7,660,005	103,100	7,763,105	--	--	--
Total investments	197,366,586	2,510,917	199,877,503	2,724,452	1,014,572	3,739,024
Equipment, net of accumulated depreciation of $23,698 (Note 1)	--	--	--	2,221	--	2,221
Total assets	199,387,533	2,537,624	201,925,157	6,945,353	2,562,733	9,508,086
LIABILITIES:						
Accounts payable	162,894	--	162,894	4,284	--	4,284
Payroll taxes payable	--	--	--	75,422	--	75,422
Investment payable	949,722	--	949,722	--	--	--
DROP withdrawal payable	206,670	--	206,670	172,011	--	172,011
Due to other system	--	--	--	5,119	--	5,119
Obligation under Securities Lending Program (Notes 5 and 10)	10,812,444	--	10,812,444	--	--	--
Total liabilities	12,131,730	--	12,131,730	256,836	--	256,836
NET ASSETS HELD IN TRUST FOR PENSION BENEFI (A schedule of funding progress for the Old System is presented on Page 19)	$ 187,255,803	$ 2,537,624	$ 189,793,427	$ 6,688,517	$ 2,562,733	$ 9,251,250

See accompanying notes.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 1998

	New System			Old System		
	Regular Pensions	Restricted-DROP	Total	Regular Pensions	Restricted-DROP	Total
ADDITIONS: (Note 1)						
Contributions:						
Member	$ 918,654	$ --	$ 918,654	$ --	$ --	$ --
City appropriations	996,490	1,487,546	2,484,036	15,170,610	1,260,195	16,430,805
Fire insurance rebate	--	--	--	837,959	--	837,959
Total contributions	1,915,144	1,487,546	3,402,690	16,008,569	1,260,195	17,268,764
Investment income:						
Recapture commission	35,725	--	35,725	--	--	--
Interest and dividends on investments	7,135,270	--	7,135,270	255,577	--	255,577
Net appreciation (depreciation) in fair value of investments	8,992,214	--	8,992,214	(68,679)	--	(68,679)
	16,163,209	--	16,163,209	186,898	--	186,898
Less investment expense:						
Investment management fees	977,520	--	977,520	--	--	--
Investment custodian fees	71,434	--	71,434	--	--	--
	1,048,954	--	1,048,954	--	--	--
Net investment income	15,114,255	--	15,114,255	186,898	--	186,898
Other:						
Transfer in	45,406	--	45,406	--	--	--
Total additions	17,074,805	1,487,546	18,562,351	16,195,467	1,260,195	17,455,662
DEDUCTIONS: (Note 1)						
Retirement benefits paid	4,729,574	--	4,729,574	15,651,779	--	15,651,779
Refund of contributions	88,429	--	88,429	--	--	--
Death benefits	6,000	--	6,000	57,000	--	57,000
Administrative expenses (Page 17)	210,208	--	210,208	351,943	--	351,943
DROP withdrawal	--	555,185	555,185	--	691,699	691,699
Transfer out	77,850	--	77,850	--	--	--
Transfer to other system	--	--	--	--	--	--
Total deductions	5,112,061	555,185	5,667,246	16,060,722	691,699	16,752,421
NET INCREASE	11,962,744	932,361	12,895,105	134,745	568,496	703,241
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:						
BEGINNING OF YEAR	175,293,059	1,605,263	176,898,322	6,553,772	1,994,237	8,548,009
END OF YEAR	$ 187,255,803	$ 2,537,624	$ 189,793,427	$ 6,688,517	$ 2,562,733	$ 9,251,250

See accompanying notes.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

The Firefighters' Pension and Relief Fund was created, pursuant to Louisiana Revised Statute 11:3361, for the purpose of providing retirement allowances and other benefits for firefighters of the City of New Orleans. The fund is administered by a Board of Trustees. Benefits, including normal retirement, early retirement, disability retirement and death benefits, are provided as specified in La. R.S. 11:3361 et seq.

The Fund consists of two systems, the Old System and the New System. The Old System covers firefighters who were employed before January 1, 1968. The New System covers firefighters who were employed after December 31, 1967 or Old System members who have given written application to the board to elect coverage under the New System.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements are prepared in accordance with the standards established by the Governmental Accounting Standards Board (GASB) as the successor to the National Council on Governmental Accounting (NCGA).

Basis of Accounting:

The Fund's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period in which the employee is compensated for services performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Interest and dividend income is recognized when earned. Fire insurance rebate monies are recognized when due.

Methods Used to Value and Report Investments:

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Investments of the Old and New Systems are allocated to the restricted DROP Fund based on total DROP deposits. The investments in the two funds are maintained in one account.

Futures Contracts:

The margin account for the purchase of the futures contracts is invested in cash equivalents and is included in that investment category in the statement of plan net assets. The changes in the market value of the contracts are reported as gains or losses in the period in which the change occurs.

Equipment:

Equipment is valued on the basis of historical cost and depreciated using the straight-line method of depreciation. Depreciation expense for the year ended December 31, 1998 is $4,087.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
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2. PLAN DESCRIPTION:

The Firefighters' Pension and Relief Fund was established and placed under the management of the board of trustees for the purpose of providing retirement allowances and other benefits as stated under the provisions of La. R.S. 11:3361 et seq. for active firefighters employed by the City of New Orleans.

The Fund consists of two systems, the Old System and the New System. The Old System covers firefighters who were employed before January 1, 1968. The New System covers firefighters who were employed after December 31, 1967 or Old System members who have given written application to the board to elect coverage under the New System.

At December 31, 1998, the Firefighters' Pension and Relief Fund's membership consisted of:

	New System	Old System
Current retirees and beneficiaries	260	875
Terminated with contributions on deposit with the System	75	--
Vested and nonvested active employees covered	737	38
TOTAL PARTICIPANTS AS OF THE VALUATION DATE	1,072	913

Retirement Benefits

Members may retire with twelve years of creditable service at age fifty. The retirement benefit paid is two and one-half percent of average compensation for each year of creditable service during the best four consecutive years of service preceding the date of retirement. For members with more than twenty years of service, benefits are an additional two and one-half percent per year to be increased by one half percent for each year of service over twenty upon attaining age fifty-five. The maximum benefit payable is 100% of average compensation earned during any three highest average consecutive years of service preceding retirement.

Members covered under the Old System may retire with twenty years of creditable service regardless of age. For the first twenty years of service, the retirement benefit paid is 50% of average compensation during the best year of service preceding the date of retirement. For each year of service in excess of twenty years, benefits are an additional 2.5% per year not to exceed 100%. In addition, if the member has attained age 50, his benefit is increased by .5% for each year of service over 25.

Disability Benefits

Under both systems, disability benefits are paid to employees who become physically or mentally disabled and unable to perform their duties. Nonservice related benefits are 30% of final compensation for those members with ten years of service or less; 40% of final compensation for those members with more than ten years but less than fifteen years of service; and 50% of final compensation for those members with more than fifteen years of service. Service related benefits for those unable to do any work are the greater of 2/3 of monthly compensation or a regular retirement benefit if the member is so eligible. For those unable to perform firefighting duties but able to do other work, service related benefits are equal to the greater of 1/2 of monthly compensation or a regular retirement benefit if the member is so eligible.

FIREFIGHTERS' PENSION AND RELIEF FUND
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2. PLAN DESCRIPTION: (Continued)

Survivor Benefits

Under the New System, survivor benefits are payable in accordance with each member's option elections under La. R.S. 11:3385. However, if a member dies from service-connected causes while actively employed, irrespective of his years of service or eligibility for pension by age, the member's surviving spouse receives a presumptive benefit based on twenty years of service, calculated as a husband-and-wife benefit. In addition, a $3,000 lump sum benefit is payable to the firefighter's designated beneficiary.

Under the Old System, nonservice related survivor benefits of $500 per month are payable to a spouse. Service related spousal death benefits are 50% of the firefighter's salary. In addition, survivor benefits of $75 per month are payable for each dependent child under the age of eighteen, until each reaches age 18 or marries. If the child is mentally or physically handicapped, and totally and permanently disabled, the benefit is payable for life. If the firefighter is unmarried and leaves no dependent children at death, the service related survivor benefit is payable to the firefighter's widowed dependent parent. If the firefighter is unmarried and leaves no dependent children at death, nonservice related survivor benefits are payable to the firefighter's widowed parent. A $3,000 lump sum benefit is payable upon the death of any active or retired member to the named beneficiary.

Refund Benefits

Under the New System, upon withdrawal from service, members not entitled to receive benefits from the Fund are paid a refund of accumulated contributions plus interest. For the Old System, upon withdrawal from service, members not entitled to receive benefits from the Fund are paid a refund of 80% of accumulated contributions.

DROP Benefits

In lieu of terminating employment and accepting a service retirement allowance, any member who has twenty or more years of service may elect to participate in the Deferred Retirement Option Plan (DROP) for up to three years and defer the receipt of benefits. Upon commencement of participation in the plan, active membership in the system terminates. During participation in the plan, employer contributions cease. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance, are paid into the DROP fund. This fund does not earn interest at any time. In addition, no cost-of-living increases are payable to participants until employment which made them eligible to become members of the system has been terminated for at least one full year.

Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan may receive, at his option, a lump sum from the account equal to the payments into the account. The monthly benefits that were being paid into the deferred retirement option plan fund will begin to be paid to the retiree. If a participant dies during the participation in the plan, a lump sum equal to his account balance in the plan fund shall be paid to his named beneficiary or, if none, to his estate. If employment is not terminated at the end of the three years, payments into the plan fund cease and the person resumes active contributing membership in the system.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
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3. CONTRIBUTIONS AND RESERVES:

Contributions

The New System is funded by employee and employer contributions established by state statute. Employees contribute 6% of salary for the first twenty years of employment. Employer contributions are made monthly to pay the actuarially determined contributions for the prior year.

The Old System is funded by employee and employer contributions established by state statute. Employees contribute 6% of salary for the first twenty years of employment. Employer contributions are made monthly for the amount necessary to pay current expenses. Annual contributions to the Old System do not include amortization of past service cost. In effect, the Old System is being funded on a "pay-as-you-go" basis. No new participants have entered the Old System since December 31, 1967. In addition, the Old System receives fire insurance taxes amounting to 2% of the fire insurance premiums written in the City of New Orleans.

Administrative costs of the Fund are financed through employer contributions.

Reserves:

Use of the term "reserve" by the Fund 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:

A) Pension Reserve:

The Pension Reserve consists of the reserves for all pensions, excluding cost-of-living increases, granted to members and is the fund from which such pensions and other benefits are paid. Survivors of deceased beneficiaries also receive benefits from this fund. The Pension Reserve balance of the New System is $57,358,880 and it is fully funded. The Pension Reserve Balance of the Old System is $156,134,844 and it is 4.2% funded.

B) Annuity Savings:

The Annuity Savings is credited with contributions made by members of the Fund. 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. When a member retires, the amount of his accumulated contributions is transferred to the Pension Reserve to provide part of the benefits. The Annuity Savings balance of the New System is $17,223,673 and it is fully funded. The Annuity Savings balance of the Old System is $84,487 and it is fully funded.

C) Pension Accumulation:

The Pension Accumulation consists of contributions paid by employers, interest earned on investments and any other income not covered by other accounts. This fund is charged annually with an amount, determined by the actuary, to be transferred to the Pension Reserve to fund retirement benefits for existing recipients. It is also relieved when expenditures are not covered by other accounts. The Pension Accumulation balance of the New System is $99,880,312 and it is fully funded. The Pension Accumulation balance of the Old System is $14,730,977 and it is 0% funded.

FIREFIGHTERS' PENSION AND RELIEF FUND
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NOTES TO FINANCIAL STATEMENTS
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3. CONTRIBUTION AND RESERVES: (Continued)

D) Deferred Retirement Option Plan Account:

The Deferred Retirement Option Plan (DROP) Account receives and holds the monthly retirement benefits deposited on behalf of DROP participants while they continue to work. At termination, a lump sum payment of the DROP deposits is made to the participant. The DROP account balance of the New System is $2,537,624 and it is fully funded. The DROP balance of the Old System is $2,562,733 and it is fully funded.

4. ACTUARIAL COST METHOD:

The Aggregate Cost Method was used to calculate the funding requirements of the New System. This funding method allocates pension costs as a level percentage of payroll over the future working lifetime of current members. The Aggregate Cost Method produces no unfunded accrued liability. Under the Aggregate Cost Method, actuarial gains and losses are spread over future normal costs. Based on actual experience future normal costs will increase or decrease.

The Entry Age Normal Cost Method was used to calculate the funding requirements of the Old System. Under this cost method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated on a level basis as percentage of payroll for each participant between entry age and assumed retirement age(s). That portion of the actuarial present value attributable to current year benefit accruals is called the Normal Cost. The actuarial present value of future benefits in excess of the actuarial present value of the future normal cost is called the actuarial accrued liability. Gains and losses directly increase or decrease the unfunded accrued liability.

Although the Entry Age Normal Cost Method was used to calculate the funding requirements of the Old System, it is funded on a "pay-as-you-go" basis, as more fully described in Footnote 3. Current contributions cover current expenses only.

The sole change in method for the 1998 actuarial valuation was a change in the methodology for determining the actuarial value of assets for the New System. Prior to 1998, the actuarial value of assets was determined by averaging cost and market value of securities. This methodology has the effect of counting only one half of any unrealized capital gains or losses accrued during any one year. The remaining one half is not recognized until the asset is sold. Effective with this valuation, a three year phase in of both realized and unrealized capital gains or losses was employed. This method smoothes the effects of market fluctuations on the portfolio. Since both realized and unrealized gains are smoothed, portfolio turnover has no effect on the results. This change decreased the actuarial value of assets for 1998 by $1,805,034.

5. DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS:

Following are the components of the Pension and Relief Fund's deposits, cash equivalents and investments at December 31, 1998:

FIREFIGHTERS' PENSION AND RELIEF FUND
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NOTES TO FINANCIAL STATEMENTS
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5. DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS: (Continued)

	NEW SYSTEM	OLD SYSTEM
Deposits (Bank balance)	$ 484,725	$5,956,644
Cash equivalents	11,162,302	3,700,000
Investments	188,715,201	39,024

Deposits:

The Fund's bank account balances as of December 31, 1998 were entirely covered by federal depository insurance and pledged securities.

Cash Equivalents:

Cash equivalents of the New System consist of government backed pooled funds and commercial paper. The funds are held by the Fund's custodian's trust department in the Fund's name. The cash equivalents of the Old System consist of repurchase agreements which are collateralized.

Investments:

Statutes authorize the Fund to invest under the Prudent-Man Rule. The Prudent Man Rule shall require each fiduciary of a retirement system and each board of trustees acting collectively on behalf of the system to act with care, skill, prudence and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Notwithstanding the Prudent-Man Rule, the Fund shall not invest more than sixty-five percent of the total portfolio in common stock.

The Fund's investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Fund's name.

	MARKET VALUE	CATEGORY
New System		
Collateral held under Securities Lending Program	$ 10,058,970	2
Collateral held under Securities Lending Program invested in collateral investment pool	753,474	N/A
Bonds	53,301,168	1
Stocks	71,613,520	1
Mutual funds	31,599,051	N/A
Notes receivable	3,010,000	1
Investment in partnership	7,763,105	N/A

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5. DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS: (Continued)

Investments: (Continued)

Investments held by broker-dealers in which collateral may be reinvested:		
Bonds	5,163,848	N/A
Stocks	5,452,065	N/A
TOTAL	$188,715,201	
Old System		
Stocks	$ 39,024	1
TOTAL	$ 39,024	

Market values for the New System are furnished by the Fund's custodial bank. Market values for the Old System are obtained from an independent public source.

6. PER DIEM PAID TO BOARD MEMBERS:

Board members are not paid per diem for attending board meetings.

7. OFFICE RENTAL:

The Fund rented office space for $782 per month on a month to month basis. Total rent expense for the year ending December 31, 1998, was $10,166.

8. USE OF ESTIMATES:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. REQUIRED SUPPLEMENTARY SCHEDULE INFORMATION:

Information in the Required Supplementary Schedules is designed to provide information about the Fund's progress made in accumulating sufficient assets to pay benefits and is presented on pages 18 - 20.

10. SECURITY LENDING AGREEMENTS:

The Board of Trustees of the Fund authorized the Fund to enter into reverse repurchase agreements in the operation of its securities lending program. These agreements consist of the loan of securities (stock and bonds) with a simultaneous agreement to reacquire the same loaned security in the future plus a contract rate of interest. The Fund requires the dealer to transfer cash or collateral of 102% of the market value of the securities underlying the reverse repurchase agreements. This excess provides the Fund with a margin against an increase in the market value of the transferred securities. If the dealers default on their obligations to retransfer these securities to the Fund or to provide securities or cash of equal value, the Fund is protected from an economic loss because of the margin required from the dealers.

FIREFIGHTERS' PENSION AND RELIEF FUND
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10. SECURITY LENDING AGREEMENTS: (Continued)

In cases of security loans in which the collateral received by the Fund is cash, the Fund is able to reinvest the cash under the agreement with the dealer. When this occurs the collateral is reported as an asset with a corresponding liability. If the Fund receives collateral other than cash, it may not reinvest the collateral. When this occurs, the Fund does not record the collateral on the financial statements. In both cases, the loaned securities continue to be reported as an asset on the balance sheet and in footnote 5. At December 31, 1998 all collateral was cash collateral. The cash collateral was invested in cash equivalents, commercial paper and a collateral pool of repurchase agreements at December 31, 1998. The maturities of these investments match the maturities of the securities loans.

The information was not available to compute the gross amount of interest income earned and interest expense incurred from security lending transactions. The net income received from the transactions in the amount of $44,419 is recorded on the financial statements in investment income.

11. FUTURES CONTRACTS:

The Fund has entered into futures contracts for the purpose of trading. At December 31, 1998, the Fund had outstanding sixty-five treasury bond and treasury note futures contracts, all maturing March 1999. The notional value of the open contracts at December 31, 1998 was $7,808,556. The fair value of the open contracts at December 31, 1998 was $7,779,770.

The Fund is exposed to credit loss in the event of nonperformance by the other parties to the futures contracts. However, the Fund does not anticipate nonperformance by the counterparties. The Fund is exposed to market risk as a result of possible future changes in market prices. The maximum amount of credit or market risk to the Fund is the notional value of the contracts. During the year ended December 31, 1998, the Fund realized net losses of $88,477 on futures trading. The net losses are recorded on the financial statements in investment income.

The Fund is required to pledge a $2,000,000 treasury note with a carrying value of $2,198,640 as collateral for the trading account. At December 31, 1998, the pledged note's carrying value was $2,198,640. The Fund is also required to maintain a margin account in the amount of $2,000,000, to serve as the source of funds for any required variation margin, and is consistent with risk parameters agreed to. At December 31, 1998, the margin account's balance was $2,409,678.

12. NOTES RECEIVABLE:

During the year ended December 31, 1998, the Fund had investments in three corporations. The terms and details of the notes are as follows:

a) On October 1, 1997, the Fund loaned $3,000,000 to Weston Lakes Country Club and Sierra Golf Corp. (the Corporations). The loan bears interest at 9% which is due in quarterly installments commencing from the date of the loan. Principal is to be paid in quarterly installments commencing January 31, 2003 and ending January 31, 2008.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

12. NOTES RECEIVABLE: (Continued)

a) (Continued)
The Fund may, by giving written notice of its desire to do so on or before July 31, 2002, accelerate the balance due under the loan and, in said event, the Corporations are required to pay the cumulative sum of all unpaid principal, accrued but unpaid interest, projected net cash flow not yet paid plus 35% of the net appraised value of the property and the improvements on or before January 31, 2003. In the event that the Fund does not elect to accelerate the loan, the Corporations may give written notice subsequent to July 31, 2002 but on or before October 31, 2002 of their desire to prepay the loan under the same terms as the Fund's acceleration.

The note is collateralized by a deed of trust granting a mortgage ranking in first position on the property and improvements of Weston Lake Country Club. Additional interest of the greater of 35% of net cash flow (gross income of the property less operating expenses of the property) or projected net cash flow (as detailed in the loan agreement) is due in annual installments commencing January 31, 1999, until the note is paid in full. For the year ended December 31, 1998, the Fund earned interest (including additional interest) of $335,631 which is recorded as investment income.

b) On November 24, 1997, the Fund loaned $3,500,000 to BSL Golf of California, Inc (BSL). The loan originally bore interest at 8.5%, due in quarterly installments commencing from the date of the loan. Principal was to be paid in quarterly installments commencing January 31, 2003 and ending January 31, 2008. In 1998, the loan was amended upon the prepayment of $3,490,000 of the principal balance. The remaining principal balance of $10,000 will be due January 14, 2037.

In the event that the Fund should consent to the sale of the BSL property or in an event of default, BSL is required to pay the cumulative sum of all unpaid principal, accrued but unpaid interest, projected net cash flow not yet paid plus 15% of the net appraised value of the property and the improvements which is in excess of said unpaid principal, interest, projected net cash flow and the aggregate due under the senior indebtedness.

The note is collateralized by a deed of trust granting a mortgage ranking in second position on property and improvements for BSL's golf course facilities. As of December 31, 1998, the first mortgage on the property and improvements was $15,000,000. As additional collateral, the Fund holds a security interest in 1,000 shares of the stock of BSL. Additional interest of the greater of 15% of net cash flow (gross income of the property less operating expenses of the property) or projected net cash flow (as detailed in the loan agreement) is due in annual installments commencing January 31, 1999, until the note is paid in full. For the year ended December 31, 1998, the Fund earned interest (including additional interest) of $205,804 which is recorded as investment income.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

13. YEAR 2000:

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Fund's operations as early as fiscal year 1999.

Fund information necessary for the performance of actuarial valuations and the determination of contributions is maintained in the accounting and computer systems of the Firefighters' Pension and Relief Fund of the City of New Orleans, The City of New Orleans and the Trustee Bank.

The Fund has completed a process of identifying computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Fund's operations. The Fund is in the implementation stage in that computer software and hardware are believed to be year 2000 compliant, except for that of the City of New Orleans, for which the Fund has been unable to determine the status of compliance.

However, because of the unprecedented nature of the year 2000 issue, its effect and the success of related efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Fund is or will be year 2000 ready, or that parties with whom the Fund does business will be year 2000 ready.

14. INVESTMENT IN PARTNERSHIP:

During 1998, the Fund invested $7,500,000 as a limited partner in the Scott's Cove Special Credits Fund I, L.P. (the partnership). The partnership seeks capital appreciation and current income, primarily through investment in debt and equity securities and other obligations of entities which are highly leveraged or involved in a reorganization. The partnership also invests in other financial instruments believed by the investment manager to be undervalued. All investments made by the partnership are in the equity and debt obligations issued or guaranteed by U.S. corporate entities or otherwise subject to U.S. bankruptcy law.

Net income or loss is allocated on a quarterly basis to the capital accounts of the partners, based upon each partner's percentage of partnership capital at the beginning of the quarter. The Fund's share of partnership income for 1998 was $263,105, which is recorded on the financial statements in investment income.

15. GAIN CONTINGENCIES:

The Fund has filed suit against the City of New Orleans pursuing significant backpay claims for a certified class of New Orleans Fire Department employees employed between 1991 and the present. In the opinion of the Fund's counsel, the suit could result in an award by the court in favor of the Fund. At this time, no estimate can be made as to the time or the amount, if any, of ultimate recovery.

The Fund has also filed suit against the City of New Orleans for resolution of the Old System's lack of reserves. Since the Old System is administered on a "pay-as-you-go" basis, the Old System's assets are insufficient to meet a single month's benefit payments in the event the City fails to meet the actual costs thereof in any given month. The Fund's counsel anticipates a potential favorable recovery.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
SUPPLEMENTARY INFORMATION
STATEMENT OF CHANGES IN RESERVE BALANCES - NEW SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 1998

	PENSION RESERVE	ANNUITY SAVINGS
BALANCES, JANUARY 1, 1998	$ 51,344,746	$ 17,162,977
REVENUES AND TRANSFERS:		
Contributions:		
Members	--	918,654
Employers	--	--
Net income from investments and other sources	--	--
Interest on accumulated savings	--	559,178
Transfers from members' savings	1,311,501	--
Transfer from other system	--	--
Pensions transferred from annuity reserve	--	3,028
Actuarial transfers	10,925,753	--
Total revenues	12,237,254	1,480,860
EXPENDITURES AND TRANSFERS:		
Retirement allowances paid	4,729,574	--
Refunds to members	--	88,429
Transfers to annuity reserve	--	1,311,501
Pensions transferred to DROP	1,487,546	--
Death benefits	6,000	--
Interest transferred to annuity savings	--	--
Transfer to other systems	--	20,234
Actuarial transfer	--	--
Total expenditures	6,223,120	1,420,164
NET INCREASE (DECREASE)	6,014,134	60,696
BALANCES - DECEMBER 31, 1998	$ 57,358,880	$ 17,223,673

DROP	PENSION ACCUMULATION	EXCESS NET ASSETS	TOTAL
$ 1,605,263	$ 95,017,553	$ 11,767,783	$ 176,898,322
--	--	--	918,654
--	2,484,036	--	2,484,036
--	14,904,047	--	14,904,047
--	--	--	559,178
--	--	--	1,311,501
--	42,378	--	42,378
1,487,546	--	--	1,490,574
--	--	1,025,155	11,950,908
1,487,546	17,430,461	1,025,155	33,661,276
555,185	--	--	5,284,759
--	--	--	88,429
--	--	--	1,311,501
--	--	--	1,487,546
--	--	--	6,000
--	559,178	--	559,178
--	57,616	--	77,850
--	11,950,908	--	11,950,908
555,185	12,567,702	--	20,766,171
932,361	4,862,759	1,025,155	12,895,105
$ 2,537,624	$ 99,880,312	$ 12,792,938	$ 189,793,427

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
SUPPLEMENTARY INFORMATION
STATEMENT OF CHANGES IN RESERVE BALANCES - OLD SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 1998

	PENSION RESERVE	ANNUITY SAVINGS
BALANCES, JANUARY 1, 1998	$ 154,091,575	$ 176,994
REVENUES AND TRANSFERS:		
Contributions:		
Employers	--	--
Fire insurance rebate	--	--
Transfers from members' savings	92,507	--
Pensions transferred from annuity reserve	--	--
Actuarial transfers	18,919,736	--
Total revenues	19,012,243	--
EXPENDITURES AND TRANSFERS:		
Retirement allowances paid	15,651,779	--
Net expenses from investment and other sources	--	--
Transfers to annuity reserve	--	92,507
Pensions transferred to DROP	1,260,195	--
Death benefits	57,000	--
Actuarial transfer	--	--
Total expenditures	16,968,974	92,507
NET INCREASE (DECREASE)	2,043,269	(92,507)
BALANCES - DECEMBER 31, 1998	$ 156,134,844	$ 84,487

DROP	PENSION ACCUMULATION	UNFUNDED ACTUARIAL LIABILITY	TOTAL
$ 1,994,237	$ 16,585,566	$ (164,300,363)	$ 8,548,009
--	16,430,805	--	16,430,805
--	837,959	--	837,959
--	--	--	92,507
1,260,195	--	--	1,260,195
--	--	38,572	18,958,308
1,260,195	17,268,764	38,572	37,579,774
691,699	--	--	16,343,478
--	165,045	--	165,045
--	--	--	92,507
--	--	--	1,260,195
--	--	--	57,000
--	18,958,308	--	18,958,308
691,699	19,123,353	--	36,876,533
568,496	(1,854,589)	38,572	703,241
$ 2,562,733	$ 14,730,977	$ (164,261,791)	$ 9,251,250

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENTS
DECEMBER 31, 1998

	FACE VALUE		ORIGINAL COST		MARKET VALUE	
	New System	Old System	New System	Old System	New System	Old System
Cash equivalents	$ 11,162,302	$ 3,700,000	$ 11,161,819	$ 3,700,000	$ 11,162,302	$ 3,700,000
Bonds:						
U.S. Government and Agency Issues	12,076,909	--	12,087,891	--	12,698,953	--
Corporate bonds	45,976,052	--	43,634,777	--	43,718,042	--
Foreign bonds	2,185,000	--	2,164,113	--	2,048,021	--
Stocks:						
Equities	60,559,716	51,779	60,559,716	51,779	77,065,585	39,024
Notes receivable	3,010,000	--	3,010,000	--	3,010,000	--
Investment in partnership	7,763,105	--	7,763,105	--	7,763,105	--
Mutual funds	26,651,840	--	26,651,840	--	31,599,051	--
TOTAL	$ 169,384,924	$ 3,751,779	$ 167,033,261	$ 3,751,779	$ 189,065,059	$ 3,739,024

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
SUPPLEMENTARY INFORMATION
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1998

	New System	Old System
Accounting, auditing and legal	$ --	$ 145,005
Actuary Fees	--	26,840
Advertising - legislative	--	9,712
Depreciation	--	4,087
Insurance	--	8,335
Interfund allocation	200,000	(200,000)
Office supplies and printing	--	11,750
Other	10,208	3,414
Payroll and Payroll Taxes	--	190,279
Pension Seminars and Education	--	118,279
Postage	--	10,805
Professional - medical	--	11,000
Rent	--	10,166
Telephone	--	2,271
TOTAL	$ 210,208	$ 351,943

FIREFIGHTERS' PENSION AND RELIED FUND
SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS
DECEMBER 31, 1993 THROUGH 1998

	NEW SYSTEM	
YEAR	ACTUARIAL REQUIRED CONTRIBUTIONS EMPLOYER	PERCENT CONTRIBUTED EMPLOYER
1993	$ 2,943,408	100.00 %
1994	3,157,080	96.93
1995	2,432,808	100.00
1996	3,156,216	100.00
1997	2,856,000	105.16
1998	2,897,928	85.72

	OLD SYSTEM	
YEAR	ACTUARIAL REQUIRED CONTRIBUTIONS EMPLOYER AND OTHER SOURCES	PERCENT CONTRIBUTED EMPLOYER AND OTHER SOURCES
1993	$ 15,540,684	93.23 %
1994	18,718,644	79.55
1995	18,630,960	79.31
1996	18,400,260	93.59
1997	17,878,316	102.99
1998	18,978,384	90.99

FIREFIGHTERS' PENSION AND RELIED FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - OLD SYSTEM
DECEMBER 31, 1993 THROUGH 1998

OLD SYSTEM

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
December 31, 1993	$ 2,826,979	$ 155,227,110	$ 152,400,131	1.82 %	$ 2,864,367	5,320.55 %
December 31, 1994	3,622,853	154,575,834	150,952,981	2.34	2,617,351	5,767.40
December 31, 1995	3,769,588	165,740,271	161,970,683	2.27	2,505,605	6,464.33
December 31, 1996	5,628,192	166,906,068	161,277,876	3.37	556,263	28,993.10
December 31, 1997	8,548,009	172,848,372	164,300,363	4.95	336,872	48,772.34
December 31, 1998	9,251,250	173,513,041	164,261,791	5.33	207,315	79,232.95

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
SUPPLEMENTARY INFORMATION
NOTES TO SCHEDULES OF CONTRIBUTIONS AND SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 1993 THROUGH 1998

The information presented in the Schedules of Contributions and the Schedule of Funding Progress was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 1998
Actuarial Cost Method	New System: The Aggregate Actuarial Cost Method with allocation based on earnings.
	Old System: Entry Age Normal Actuarial Cost method with allocation based on earnings.
Asset Valuation Method	New System: Market value adjusted to average realized and unrealized capital gains over a three year period.
	Old System: Market value.
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Projected Salary Increases	5%
Cost of Living Adjustments	The present value of future retirement benefits is based on benefits currently being paid by the Fund and includes previously granted cost of living increases. The present values do not include provisions for potential future increases not yet authorized by the Board of Trustees.
Amortization Method:	The amortization period is for a specific number of years with payments at a level amount.
Remaining Amortization Period:	13 years
Change in Actuarial Assumptions:	The asset valuation method was changed to three year averaging of realized and unrealized gains from an average of cost and market values for the New System. This change decreased the actuarial value of assets for 1998 by $1,805,034.

FIREFIGHTERS' PENSION AND RELIEF FUND
OF THE CITY OF NEW ORLEANS
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
FOR THE YEAR ENDED DECEMBER 31, 1998

May 5, 1999

Honorable Mayor and Council of
the City of New Orleans, Louisiana

We have audited the financial statements of the Firefighters' Pension and Relief Fund of the City of New Orleans as of and for the year ended December 31, 1998, and have issued our report thereon dated May 5, 1999. 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' Pension and Relief Fund of the City of New Orleans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Firefighters' Pension and Relief Fund of the City of New Orleans' 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that we have reported to management in a separate letter dated May 5, 1999.

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

Duplantier, Hrapmann, Hogan & Maher LLP

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

MICHAEL J. O'ROURKE, C.P.A.
WILLIAM G. STAMM, C.P.A.
CLIFFORD J. GIFFIN, JR., C.P.A.
DAVID A. BURGARD, C.P.A.
LINDSAY J. CALUB, C.P.A., L.L.C.
DAVID J. MUMFREY, C.P.A.
GUY L. DUPLANTIER, C.P.A.
BONNIE J. McAFEE, C.P.A.

MICHELLE H. CUNNINGHAM, C.P.A.
KENNETH J. BROOKS, C.P.A., ASSOCIATE

1340 Poydras St., Suite 2000 • New Orleans, LA 70112
(504) 586-8866
FAX (504) 525-5888
cpa@dhhmcpa.com

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

MEMBERS
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SOCIETY OF LA. C.P.A.'S

May 5, 1999

Honorable Mayor and Council of the
City of New Orleans

We have audited the financial statements of the Firefighters' Pension and Relief Funds of the City of New Orleans as of and for the year ended December 31, 1998, and have issued our report thereon dated May 5, 1999. 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.

As part of our examination, we have issued our report on the financial statements, dated May 5, 1999, and our report on internal control and compliance with laws, regulations, and contracts, dated May 5, 1999.

During the course of our examination, we became aware of the following matters which represent immaterial deviations of compliance or suggestions for improved internal controls.

Securities Lending - Collateral

Per the Fund's agreement with Bank One, the securities on loan are to be collateralized at 102% of the market value of the securities. During audit testing, it was noted that as of December 31, 1998, the securities on loan were undercollateralized by $15,787, resulting in collateralization of only 101.85%. The Fund is exposed to a potential risk of loss as a result of the undercollateralization.

We recommend that the Fund undertake whatever steps necessary with Bank One to ensure that securities on loan are sufficiently collateralized at all times.

We recommend management address the foregoing issues as an improvement to operations and the administration of public programs. We are available to further explain the suggestions or help implement the recommendation.

Sincerely,

DUPLANTIER, HRAPMANN, HOGAN & MAHER, LLP

William Stamm

William G. Stamm, CPA
Partner

WGS\djt

BOARD OF TRUSTEES
- OF THE -
FIRE FIGHTER'S PENSION AND RELIEF FUND
FOR THE CITY OF NEW ORLEANS
329 SO. DORGENOIS STREET
NEW ORLEANS, LOUISIANA 70119
821-4671
827-1129 fax

May 26, 1999

Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, La 70804-9397

Dear Sir or Madam:

Following is the Corrective Action Plan for the audit suggestion reported in our management letter for the year ended December 31, 1998:

Suggestion 98-1:

Securities Lending - Collateral

We will contact Bank One and have them take the necessary steps to ensure that our securities on loan are sufficiently collateralized at all times.

Should you require further information, please do not hesitate to contact me.

Very Truly Yours,

Richard J. Hampton, Jr.

Richard J. Hampton, Jr.
Secretary-Treasurer

DUPLANTIER, HRAPMANN,
HOGAN & MAHER, L.L.P.
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(504) 586-8866
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May 5, 1999

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We recommend that the Fund undertake whatever steps necessary with Bank One to ensure that securities on loan are sufficiently collateralized at all times.

We recommend management address the foregoing issues as an improvement to operations and the administration of public programs. We are available to further explain the suggestions or help implement the recommendation.

Sincerely,

DUPLANTIER, HRAPMANN, HOGAN & MAHER, LLP

William Stamm

William G. Stamm, CPA
Partner

WGS\djt

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May 26, 1999

Legislative Auditor
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Should you require further information, please do not hesitate to contact me.

Very Truly Yours,

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Secretary-Treasurer