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FIREFIGHTERS' RETIREMENT SYSTEM

FINANCIAL REPORT

June 30, 2004

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

SECTION I
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SECTION II
COMPLIANCE MATTERS AND INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

Provost Salter Harper & Alford LLC
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

To the Board of Trustees
Firefighters Retirement System

We have audited the statement of plan net assets of the Firefighters Retirement System as of June 30, 2004, and the related statement of changes in plan net 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2004, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2004 on our consideration of the Firefighters' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis information pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We have also previously audited, in accordance with generally accepted auditing standards, the financial statements as of June 30, 2003, 2002, 2001, 2000, 1999, 1998, 1997, 1996, and 1995 (none of which are presented herein); and we expressed unqualified opinions on those financial statements. In our opinion, the information set forth in the required supplementary information for each of the ten years in the period ended June 30, 2004, appearing on pages 25 through 27, 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 28 is presented for purposes of additional analysis and is not a required part of the basic 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.

As discussed in Note 11 to the financial statements, the Firefighter's Retirement System is involved in litigation with the Louisiana Municipal Association that could result in the uncollectability of some assets and possible refunds of some amounts that were collected. The ultimate outcome of the lawsuit cannot presently be determined. No provision for any liability that may result has been made in the financial statements. Nevertheless, due to uncertainties with the lawsuit, it is at least reasonably possible that management's view of the outcome will change in the near term.

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

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

September 8, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Firefighters' Retirement System's (FRS) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ending June 30, 2004. Please review it in conjunction with the Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- FRS' net assets held in trust increased $87.7 million, or 13 %.
- The rate of return on the market value of the FRS investments was 11.4% in 2004 as compared to 5.4% for 2003.
- If the system included the unpaid contributions as assets the funded ratio would increase from 69.69% at June 30, 3003 to 71.84% at June 30, 2004. However, if the system does not include the unpaid contributions, the funded ratio would decrease from 69.69% to 69.44%.
- The unfunded actuarial accrued liability decreased from $286 million to $284 million.
- Benefit payments increased by $2.8 million from 2003 to 2004, or 8%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

(1) basic financial statements,

(2) notes to the basic financial statements

(3) required supplementary information, and

(4) other supplementary schedules.

The statement of plan net assets reports the pension funds assets, liabilities, and resulting net assets held in trust for pension benefits. It discloses the financial position of FRS as of June 30, 2004.

The statement of changes in plan net assets reports the results of the pension funds operations during the year disclosing the additions to and deductions from the plan net assets.

The notes to the financial statements provide additional information and insight that is essential to gaining a full understanding of the data provided in the statements.

- Note 1 provides a general description of FRS, information regarding plan membership, and plan benefit provisions.
- Note 2 provides a summary of significant accounting policies and plan asset matters; including the basis of accounting; methods used to value investments; methods used to value property and equipment; and adoption of new accounting principles.
- Note 3 provides information regarding required reserves.
- Note 4 provides information regarding member and employer contribution requirements.
- Note 5 describes investments, including a comparison of investments at fair value and amortized cost and a roll forward of investment balances from June 30, 2003, to June 30, 2004.
- Note 6 provides information regarding securities lending transactions.
- Note 7 provides information regarding notes receivable from merged systems.
- Note 8 provides a summary of the property and equipment of FRS including depreciation and net holding amounts.
- Note 9 provides a summary of the concentration of credit risks.
- Note 10 provides information regarding any potential contingencies of FRS.
- Note 11 provides information regarding pending litigation involving FRS.

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

STATEMENT OF PLAN NET ASSETS

TABLE 1
PLAN NET ASSETS
(in thousands)

	2004	2003
Cash and Investments	$ 712,921	$648,519
Receivables *	30,384	6,918
Capital Assets	1,771	1,720
Notes Receivable	7,406	7,901
Total Assets	$752,482	$664,058
Liabilities	207	488
Plan Net Assets	$752,275	$664,570

* The increase in receivables from 2003 to 2004 is related to the litigation involving the disputed liability of certain employer contributions. See footnote 11 to the financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

Additions to FRS' net assets include employer and member contributions, investment income, and an allocation from the insurance premium tax fund. Member contributions decreased $40 thousand or .4% while employer contributions increased $14.45 million or 109%. (Note: Employer contribution balances include funds due and payable to FRS that have not yet been collected.) Insurance premium tax fund apportionment decreased $7.2 million or 30%. (Note: IPTF fund balances include funds, including interest, due and payable to FRS that have not yet been collected.) However, net investment income increased $40.4 million or 123%.

TABLE 2
ADDITIONS TO PLAN NET ASSETS
(in thousands)

	2004	2003
Contributions	$ 37,591	$ 23,181
Insurance Premium Taxes	16,538	23,705
Net Investment Income	73,194	32,786
Other Operating Revenues	739	1,172
Total Additions	$ 128,062	$ 80,844

Deductions from plan assets increased $3.2 million or 9%. This increase was primarily due to an increase in annuity benefits ($2.4 million or 7%), disability benefits ($389k or 21%), refunds ($35k or 4%) and administrative expenses ($134k or 22%). In furtherance of the initiative to bring all accounting functions in house and to meet the increased demand from a larger member base, FRS added a position to the staff this year. This addition was one of the primary factors for the increase in administrative expenses. In addition to the increase in personnel expenses, FRS had increases in postage and related office supplies that occurred due to the preparation for the system to become a qualified retirement plan.

TABLE 3
DEDUCTIONS FROM PLAN NET ASSETS
(in thousands)

	2004	2003
Annuity Benefits	$ 36,281	$ 33,850
Disability Benefits	2,260	1,871
Refunds	833	798
Transfers	235	0
Administrative Expenses	749	615
Total Deductions	$40,358	$37,134

INVESTMENTS

FRS is responsible for the prudent management of funds held in trust for the exclusive benefits of our members' pensions. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Because investment income is vital to the system's current and continued financial stability, trustees have a fiduciary responsibility to act prudently and discretely when making investment decisions. The following table summarizes the investment return by asset class for the year ended June 30, 2004, for the trailing 3 years and trailing five years.

TABLE 7
INVESTMENT RETURN

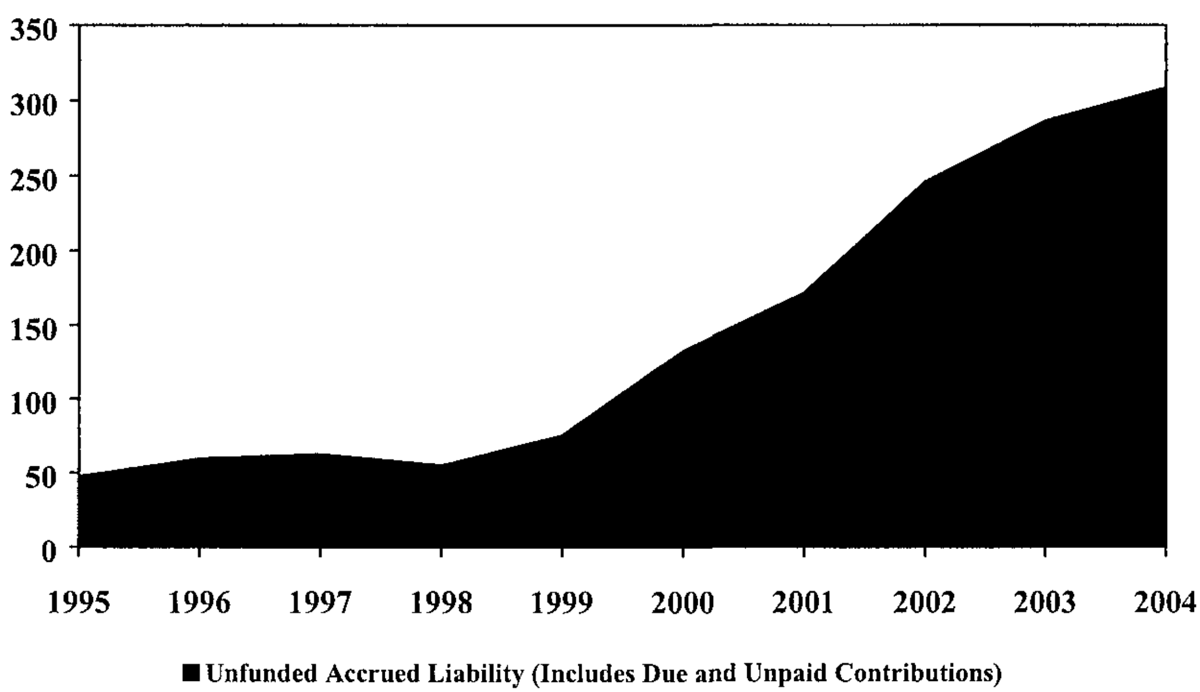
	Year ended 6/30/04	Trailing 3 Years	Trailing 5 Years
US Large Cap			
Growth	23.9%	.4%	(1.8%)
Value	19.3%	.6%	.9%
Index	19.1%	(.6%)	(2.2%)
US Mid Cap			
Value	31.0%	15.1%	17.8%
International Equity			
Value	24.7%	1.3%	N/A
Index	32.6%	3.9%	.1%
Fixed Income	.2%	6.4%	6.5%
Cash	1.6%	2.1%	3.6%

FUNDING STATUS

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

An indicator of funding status is the ratio of the actuarial present value of the assets to the actuarial present value of future benefits when using the entry age normal method. An increase in this percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in the financial markets can significantly impact the actuarial value of assets, which will impact the funded ratio. In addition to changes in the financial markets, the collection of actuarially required contributions has a significant impact on the funding status of the system. The chart below indicates the level of the unfunded accrued liability over time. However, the unfunded liability for 2004 (and 2003) includes uncollected employer contributions as assets to the system. See the actuarial section for more information regarding the impact of uncollected contributions to FRS' funding status.

Unfunded Accrued Liability



LITIGATION UPDATE

FRS was named as a defendant, along with the State of Louisiana, in a lawsuit brought by the Louisiana Municipal Association (LMA) challenging the obligation of contributing employers. Briefs were submitted and oral arguments were made to the Louisiana Supreme Court, all on or before April 13, 2004.

The Supreme Court usually works in six-week cycles. Following oral arguments, the justice assigned to write the court's decision in the case prepares a proposed written opinion and circulates it to the other six justices for their review and approval. If this opinion gets the approval of a majority of the justices, the opinion is considered as having been "passed" and becomes the official decision of the court. If, however, the proposed opinion does not get a majority vote of the justices, the opinion is reassigned to one of the other justices who must then write another proposed opinion. This process continues until such time as a majority of the justices will sign on, resulting in the official decision of the court. A decision is usually rendered by the court approximately six weeks after oral arguments.

Footnote 11 was written during the fifth six-week cycle after oral arguments. The passage of five cycles indicates that the lawsuit probably will not be remanded back to the trial court, but that is not a certainty. Typically a remand occurs shortly after the matter is taken under advisement by the court. It is also possible that the justice originally assigned to write the opinion could not get a majority of justices needed for approval. The opinion may have been reassigned. That is likely. The court was given eleven complex issues to decide. The court was asked to pass judgment on the operational affairs of the state legislature (a co-equal branch of government) and also the financial affairs of most local governments. Obtaining a majority vote of the justices may be proving difficult, thereby causing undue delay in the opinion issuance process.

FRS' financial integrity is significantly impacted by the collection of actuarially required contributions calculated each year with the actuarial valuation. See footnote 11 for further discussion regarding the financial impact of the pending litigation. See also the actuarial section of the CAFR for additional information regarding the actuarial impact of the pending litigation.

CONTACTING THE PLANS' FINANCIAL MANAGEMENT

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

Exhibit A

FIREFIGHTERS' RETIREMENT SYSTEM

Statement of Plan Net Assets — ***June 30, 2004***

ASSETS	
Cash and Cash Equivalents	**$ 21,123,918**
Receivables	
Employer	**9,239,485**
Employee	**853,034**
State Insurance Premium Tax Fund	**16,537,682**
Interest and dividends	**3,753,913**
Total receivables	**30,384,114**
Investments at Fair Value	
U. S. Government Securities	**168,376,870**
Corporate bonds	**134,701,687**
Common stocks	**388,718,698**
Total investments at fair value	**691,797,255**
7% notes receivable from merged systems	**7,099,628**
Property, building, equipment and fixtures, net of accumulated depreciation of $279,330	**1,771,468**
Prepaid expense and other	**305,565**
Total Assets	**752,481,948**
Liabilities - Accounts Payable	**207,160**
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 23.)	**$ 752,274,788**

Exhibit B

FIREFIGHTERS' RETIREMENT SYSTEM

Statement of Changes In Plan Net Assets — ***Year Ended June 30, 2004***

Additions	
Contributions	
Employer	**$ 27,650,433**
Employee	**9,940,375**
Total contributions	**37,590,808**
Investment income	
Net appreciation in fair value of investments	**53,054,779**
Interest and dividends	**21,990,448**
	75,045,227
Less investment expenses	**1,850,830**
Net investment income	**73,194,397**
Interest from notes receivable	**508,297**
State appropriations from insurance premium taxes	**16,537,682**
Purchased service and rehires	**230,731**
Total Additions	**128,061,915**
Deductions	
Annuity benefits	**36,281,148**
Disability benefits	**2,259,873**
Refunds to terminated employees	**832,610**
Transfers to other systems	**235,145**
Administrative expenses	**749,148**
Total Deductions	**40,357,924**
Net Increase	**87,703,991**
Net Assets Held In Trust For Pension Benefits	
Beginning of year	**664,570,797**
End of year	**$ 752,274,788**

See Notes to Financial Statements.

1. Description of Plan

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

General. FRS is a cost sharing, multiple-employer, 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, 1980. Membership in FRS is a condition of employment for those fulltime firefighters who are employed by municipal, parish or fire protection districts who earn more than $375/month.

Reporting Entity. FRS is not a component unit of the State of Louisiana consolidated Annual Financial report. The accompanying financial statements reflect the activity of the Retirement System.

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

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

FRS itself has no component units as defined under GASB 14.

FRS was created by the State of Louisiana and is governed by a ten-member Board of Trustees (the Board). The board is responsible for administering the assets of FRS and for making policy decisions regarding investments. Two of the trustees are elected by the professional firefighters association, one trustee is elected by the fire chiefs and one is a retired firefighter. Two are appointed by the Louisiana Municipal Association. The remaining membership of the board consists of one member from the State Treasurers office, one from the division of administration and the chairmen of the Senate and House retirement committees.

Plan Membership. Employer and employee membership data at June 30, 2004 is as follows:

Employer Members	
Cities	**51**
Parishes	**12**
Special districts	**38**
Total employer members	**101**

Employee Members	
Current retirees and beneficiaries	**1379**
Drop participants	**114**
Terminated vested participants	**42**
Terminated due a refund	**181**
Active plan participants	**3431**
Total employee members	**5147**

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 $3^1/_3$% of their average final compensation based on the 36 consecutive months of highest pay multiplied by their total years of service, not to exceed 100%. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity.

If employees terminate before rendering 12 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to their employer's contributions. Benefits are payable over the employees' lives in the form of a monthly annuity. Employee may elect an unreduced benefit or any of six 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.

5. The member can select a reduced option 2 benefit. However, if the beneficiary predeceases the retiree, the benefit will convert to the maximum.

6. The member can select a reduced option 3 benefit. However, if the beneficiary predeceases the retiree, the benefit will convert to the maximum.

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 2/3 of the employee's average final compensation. If death is not in the line of duty, the spouse will receive monthly, an annual benefit equal to 3% of the member's average final compensation multiplied by his total years of service; however, the benefit shall not be less than 40%, or more than 60% of the employee's average final compensation.

2. Children of deceased employees will receive the greater of $200 or 10% of the member's final average compensation per month until reaching the age of 18 or until the age of 22, if enrolled full time in an institution of higher education. The surviving totally physically handicapped or mentally retarded child of a deceased employee, regardless of age, shall receive the benefits as long as they are dependent on the surviving spouse.

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

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. 11:2256 may apply for retirement under the provisions of R.S. 11:2258 and shall be retired on 75% of the retirement salary to which he would be entitled under R. S. 11:2256 if he were otherwise eligible there under or 25% of the member's average salary, whichever is greater.

3. Any retired member or DROP plan participant who becomes disabled for any reason provided for by law shall be permitted to apply for conversion of a service retirement to a service connected disability retirement under R.S. 11:2258(B)(1)(e).

4. Should a member who is on disability retirement die and leave a surviving spouse, the surviving spouse shall receive a benefit of $200 per month. When the member takes disability retirement, he may, in addition, take an actuarially reduced benefit in which case the member's surviving spouse shall receive 50% of the disability benefit being paid immediately prior to the death of the disabled retiree. If the surviving spouse remarries prior to age 55, such benefits shall cease; however, the benefits shall resume upon subsequent divorce or death of the new spouse, and the approval of the board of trustees.

Deferred Retirement Option Plan. After completing 20 years of creditable service and age 50 or 25 years at any age, a member may elect to participate in the deferred retirement option plan 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 FRS.

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

Upon termination of employment, whether at the end of the specified period of participation or after a period of reemployment, a member, at his option, may continue to have his retirement benefits deposited into his DROP account under R.S. 11:2257(H)(2). A member must specify the periods for which the deposits are to be made, and once deposits have been terminated no further deposit of benefit payments are permitted. If a member becomes reemployed, deposits are terminated and no further deposit of benefit payments is permitted. This provision was repealed by Act 532 of 2004.

During the year ended June 30, 2004, $7,321,538 was credited to deferred retirement option plan accounts on behalf of 186 participants.

Initial Benefit Option. Effective June 16, 1999, members eligible to retire and who do not choose to participate in DROP may elect to receive, at the time of retirement, an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amounts may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account.

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.

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 Investments. Cash represents amounts on deposit with the custodian fiscal agent banks, and/or the investment advisors. Under state law, FRS may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. FRS's permissible investments are set forth in R.S. 11:262-263 and are further limited in accordance with investment guidelines promulgated by the board of trustees. FRS's Statement of investment guidelines authorizes investments in various investment products, including bonds issued by the United States government or its agencies, mortgage backed securities and corporate bonds rated BAA or better, domestic equities, common stock of foreign, publicly held companies and other investments as approved by the board of trustees.

The investment policy of the board limits the amount of cash within a manager's portfolio to no more than 10% of the asset total. Bonds should be between 25-75% of total assets and equities should be between 30% and the maximum amount allowed by law. The average quality of the portfolio must be at least an "A". No single holding other than U. S. Government or its agencies is to account for more than 5% of the market value of the total portfolio, nor shall any holdings of the U. S. government or its agencies exceed 10% of the total portfolio.

The equity investments must be domestic securities registered on a national exchange regulated under Title 1 of the Securities Exchange Act of 1934, or on the National Association of Securities Dealers Automated Quotation System. All international equities shall be common stock of publicly traded companies on recognized trading exchanges. No single equity holding is to exceed 8% of the market value of a manager's portfolio.

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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reporting period. Actual results could differ from those estimates. FRS utilizes various investment instruments, which by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets. The actuarial accrued liability is based on estimates and assumptions as explained in footnote 4 and the supplementary information.

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

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40
Computers and expenses	5-16
Furniture and fixtures	10

Adoption of New Accounting Principle. For the year ended June 30, 2004, Firefighters' Retirement System implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment of GASB Statement No. 3.

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

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 contributions and earnings. According to state statute, contributions for all employers are actuarially determined each year. For the year ended June 30, 2004, employer contributions were 21% of member's earnings. The System also receives funds from insurance premium taxes each year as set forth by Louisiana statutes. This income is used as additional employer contributions.

Reserves. Use of the term "reserve" by the FRS indicates that a portion of the fund balance is legally restricted for a specific future use. The nature and purpose of these reserves are explained below. Overall, the system is 71.84% funded, assuming all contributions are collected.

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, 2004 is $86,986,807 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, 2004 is $257,672,351. The Pension Accumulation Reserve is 49.99% 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, 2004 is $364,141,228. 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 retired. A member can only participate in the program for three years, and upon termination may receive his benefits in a lump sum payment or by a true annuity. The deferred retirement option as of June 30, 2004 is $43,152,346. The Deferred Retirement Option account is fully funded.

Initial Benefit Option Plan Account. The Initial Benefit Option Plan Account consists of the reserves for all members who, upon retirement eligibility, elect to deposit into this account an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amounts may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account. The Initial Benefit Option as of June 30, 2004 is $322,056. The Initial Benefit Option Plan 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, that are sufficient to accumulate 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 $54,128,490 ($27,650,433 employer and $9,940,375 employee and $16,537,682 from the insurance premium tax fund) were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2003. These contributions consisted of (a) normal cost of $30,637,915 and (b) amortization of the unfunded actuarial liability of $22,753,427.

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 0.15% at age 27 and below to .45% 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 $21,123,918 and the bank balance was $21,159,148. All of the bank balance was covered by federal depository insurance or collateral pledged in the name of the system (GASB category 3).

Investments. Statutes authorize FRS to invest in a prudent manner and limit investments in common stocks to 55% of the total portfolio. All of the FRS'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, 2004, were:

	Amortized Cost	Fair Value
U. S. Government Securities	$ 167,175,014	$ 168,376,870
Corporate bonds	132,958,204	134,701,687
Common stock	335,018,182	388,718,698
	$ 635,151,400	691,797,255

	Change in Investments	
	Amortized Cost	Fair Value
Balance, June 30, 2003	$ 589,588,390	$ 619,386,434
Add:		
Investment purchase	1,356,545,539	1,356,545,539
Amortization/accretion of income	(201,522)	(201,522)
Gain on sales of investments	28,170,881	26,221,969
Market value adjustment	-	26,832,810
Total	1,382,550,985	1,409,398,796
Less – investment maturities	(1,338,951,888)	(1,336,987,975)
Balance, June 30, 2004	$ 635,151,400	$ 691,797,255

The investments are registered in the name of Firefighters' Retirement System and are held in the custodial bank's trust account at its custodial agent or at the Federal Reserve. During the year ended June 30, 2004, there were no uninsured and unregistered investments held by the counterparty, or by its trust department or agent, which were not in Firefighters' Retirement System's name.

The net unrealized investment gain of $56,645,855 is reflected in the year-end investments since they are shown at fair market value.

FRS's investment policy of limiting the investments in any one debt issuer to 10% of total investments minimizes any concentration of credit risk. The policy limits any single equity issue to 8% of total investments. According to the investment consultants, who monitors compliance with this policy, there were no investments in any one issuer that exceeded the limitation percentage of total investments.

Credit risk is also minimized by FRS only investing in bonds rated BAA or better by nationally recognized credit rating agencies.

6. Securities Lending

The system is authorized by its board of trustees to operate a securities lending program. This program is designed to produce supplemental income on investments with little or no additional risk. All securities are available for loan to pre-approved securities dealers. Securities dealers must meet specific criteria to be approved. Securities are loaned for cash or securities issued by the U.S. Government or its agencies. FRS cannot pledge or sell securities unless the borrower defaults. U.S. Securities are loaned for 102% of the market value of the loan, plus accrued interest. Other securities are loaned for collateral valued at 105% of the market value of the securities plus any accrued interest. As of June 30, 2004 all loans were open, i.e. they mature each day. FRS did not have any credit risk at year-end because the collateral held reflected the market value of the securities on loan. There were no violations of legal or contractual provisions, nor borrower or lending agent default losses during the year. FRS has an indemnification agreement with their lending agent in case of borrower default. At year- end, broker-dealers held securities on loan contracts as follows:

U. S. Government Obligations	**$ 40,604,118**
Domestic bonds	**15,474,050**
Common stock	**23,804,384**
	$ 79,882,552

7. 7% Notes Receivable From Merged Systems

7% notes receivable from merged systems at June 30, 2004 consisted of the following:

System	Annual Payments (Including Interest)	Final Payment Due	Balance
Bastrop	$ 69,910	December 7, 2010	$ 373,915
Bogalusa	127,069	January 1, 2010	600,097
Bogalusa retirees	91,526	January 15, 2010	436,261
Kenner	237,703	April 1, 2029	2,778,929
New Iberia	166,288	November 4, 2010	896,174
New Iberia retirees	110,352	January 1, 2013	718,972
West Monroe	171,340	January 1, 2015	1,295,280
	$ 974,188		$ 7,099,628

During the year ended June 30, 2004, members transferred into FRS who had previously been members of other statewide retirement systems as a result of (R.S.11:143), purchased military service credit (R.S.11:153) or repaid refunds (R.S.11:2254). As a result of these transfers, FRS received cash of $230,731.

8. Property and Equipment

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

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Furniture	$ 96,609	$ -	$ 18,513	$ 78,096
Computer software	83,131	32,559	1,509	114,181
Land	1,066,778	-	-	1,066,778
Building	734,720	-		734,720
Construction in progress	-	57,023	-	57,023
	1,981,238	89,582	20,022	2,050,798
Accumulated depreciation	260,966	$ 34,073	$ 15,709	279,330
Net equipment and fixtures	$1,720,272			$ 1,771,468

Depreciation expenses for the year ended June 30, 2004 was $ 34,073.

9. Concentrations of Credit Risks

FRS has notes receivable from cities within the state. The collectibility of the receivables described in Note 7 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.

10. Risk Management

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

Claims relating to increased employer contribution rates could result in action against the system. It is not possible to assess the likelihood of these matters.

11. Pending Litigation

FRS has been named as a defendant, along with the State of Louisiana in an action brought by the Louisiana Municipal Association (LMA) challenging the obligation of contributing employers. The action seeks a judicial declaration that certain statutes setting the funding methodology are unconstitutional and that the employer's contribution obligation is fixed at 9% of covered payroll. The suit sought to change the current funding scheme and also to alter the methodology for the distribution of the insurance premium tax assessments, which provide part of the contribution stream. FRS joined the state in defense against the lawsuit but, to preserve all legal rights, FRS has simultaneously cross-claimed against the state. FRS asserts a claim against the state for all employer contributions payable in excess of 9% of payroll in the event that LMA prevails in the primary action. FRS also asserts a claim against the state for certain premium assessments that are alleged to be due to the FRS as a result of settling prior litigation related to control of the insurance premium tax assessments. If FRS is ultimately unsuccessful against both LMA and the state, it will seriously undermine the financial integrity of the FRS.

On November 20, 2003, judgment was rendered by the district court which, in part, effected the lawsuit as follows: (1) the court held for the FRS by declaring that the employer's contribution obligation may fluctuate higher or lower than 9% of covered payroll, and (2) the court held for the plaintiff by decreeing that certain other provisions of law related to the employer contributions are unconstitutional and, as a consequence, the court permanently enjoined FRS from collecting an amount in excess of the nine percent employer contribution rate from any employer.

On December 9, 2003, the FRS appealed, thereby suspending the district court's judgment. The appeal was lodged directly in the Louisiana Supreme Court which granted an expedited hearing. Briefs were submitted and oral arguments were made, all on or before April 13, 2004.

The LMA lawsuit was originally projected to be resolved prior to June 30, 2004. As a result of the lawsuit, some employers have remitted less than the actuarially required contribution and as of June 30, 2004 the past due contributions were over $7.6 million dollars. The difficulty of collecting delinquent contributions plus interest increases with the passage of time. If an opinion is not issued before the next fiscal year end the disruption of the FRS cash flow will cause further financial difficulties.

If the litigation is resolved in favor of the LMA, then the FRS will prosecute its claims against the state. However, if the FRS is unsuccessful in the current lawsuit and any potential suit against the state, it is possible that the FRS would owe contributions collected in excess of 9% to the contributing employers. In addition, it is possible that the FRS would collect less than the entire balance of $16.5 million due from the Insurance Premium Tax Fund (IPTF). The contribution refund to contributing employers would be approximately $14 million. The uncollectible IPTF monies would be approximately $5.3 million.

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, 2004
Actuarial cost method	Entry age
Amortization method	Level dollar - closed
Remaining amortization period	18 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

Schedule of Funding Progress *June 30, 2004*

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)
06/30/04	$ 725,615,787 *	$ 1,010,016,865	$ 284,401,078	71.84% *	$ 133,667,782	212.77 %
06/30/03	658,376,086	944,688,430	286,312,344	69.69%	121,012,780	236.60 %
06/30/02	642,947,201	888,963,640	246,016,439	72.33%	114,422,827	215.01 %
06/30/01	663,377,250	834,986,462	171,609,212	79.45%	107,667,223	159.39 %
06/30/00	646,609,069	779,541,318	132,932,249	82.95%	100,504,497	132.26 %
06/30/99	610,870,354	686,029,152	75,158,798	89.04%	92,758,784	81.03 %
06/30/98	519,924,527	574,884,182	54,959,655	90.44%	79,171,364	69.42 %
06/30/97	457,733,340	520,367,341	62,634,001	87.96%	72,865,349	85.96 %
06/30/96	417,294,158	476,872,591	59,578,433	87.51%	68,320,303	87.20 %
06/30/95	364,434,304	412,055,990	47,621,686	88.44%	64,860,138	73.42 %

* The actuarial value of assets and funded ratio assume that employer contributions that have not been remitted will be received and that the insurance premium tax which is in escrow will also be received by the System.

FIREFIGHTERS' RETIREMENT SYSTEM

Schedule of Employer Contributions And Other Contributing Entities ***June 30, 2004***

	Employer Contributions			State of Louisiana		
Year Ended June 30	**Annual Required Contribution**	**Percentage Contributed**		**Annual Required Contribution**	**Percentage Contributed**	
2004	$ 29,847,861	100.00%	*	$ 16,114,672	100.0%	**
2003	25,046,668	52.70%		14,668,649	100.0%	
2002	10,206,462	100%		24,667,309	72.1%	
2001	9,526,940	100%		19,726,553	100%	
2000	8,802,352	100%		11,597,251	100%	
1999	7,545,028	100%		9,020,724	100%	
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%	

* Some employers have not remitted the required contribution amount. This assumes those amounts will be remitted at some point.

** The required contribution from the insurance premium tax fund has not been remitted but is being held in escrow pending the outcome of the lawsuit filed by the Louisiana Municipal Association. That lawsuit is in the Louisiana Supreme Court.

Schedule 3

FIREFIGHTERS' RETIREMENT SYSTEM

Trustees' Per Diem — ***Year Ended June 30, 2004***

	Number of Meetings	**Per Diem**
William Desormeaux	**6**	**$ 525**
Dudley Dixon	**10**	**900**
Clarence Hawkins	**11**	**900**
Stacy Birdwell	**14**	**975**
Charlie Fredieu	**8**	**675**
Earl Gorrondona	**11**	**75**
Ron Henson	**10**	**-**
John Kennedy	**3**	**-**
Jim Napper	**1**	**-**
Paul Smith	**15**	**-**
Whitman Kling	**11**	**-**
Representative Pete Schneider	**6**	**-**
Senator Lambert Boissiere	**4**	**-**
		$ 4,050

There were a total of 17 board meeting days. The board members receive $75 per diem for each meeting. Some members do not accept per diem or they are paid by other entities.

Provost Salter Harper & Alford LLC
Certified Public Accountants
Business Advisors

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, 2004, and have issued our report thereon dated September 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, regulations, contracts and grants, 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' 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 an opinion 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

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more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. We also 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 September 8, 2004.

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

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

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

September 8, 2004

There are no current year findings.

Independent Auditor's Comment on Resolution Of Prior Audit Findings

Year Ended June 30, 2004

There are no items reported in the prior year, which were not resolved.

Provost Salter Harper & Alford LLC
Certified Public Accountants
Business Advisors

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

In planning and performing our audit of the financial statements of Firefighters' Retirement System for the year ended June 30, 2004, we considered the System's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of the following matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 8, 2004, on the financial statements of Firefighters' Retirement System.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various System personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Internal Audit. As reported last year, we believe the use of an internal auditor would be an effective means of providing the System with the following benefits:

1. Strengthening the System's internal controls over assets and increasing the reliability of the accounting records.

2. Assisting management in the development of System procedures.

3. Increasing assurance that System policies are being adhered to and that departmental procedures and controls are being reviewed objectively.

As the System grows, the use of an internal audit function will become increasingly important. We recommend that the board consider whether an internal audit function is feasible and necessary.

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Ethics and Communication. Also as reported last year, the business environment that exists today requires that Boards of any organization adopt an ethics statement. The statement should set forth the values of the System and it should be communicated to employees. Signed copies should be in employees personnel files and an annual review should be done to remind employees of the System's policy. There should also be a method for violations to be reported anonymously through a lock box or designated individual such as the System's attorney.

Segregation of Duties. Adequate internal control requires an organization to have adequate segregation of duties so that no one individual is able to process and record a transaction. Due to the turnover in personnel experienced after year end, the FRS will not have adequate segregation of duties until new personnel are hired.

This report is intended solely for the information and use of the Board of Trustees, management and others within the System and is not intended to be and should not be used by anyone other than those specified parties.

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

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

September 8, 2004

FIREFIGHTERS' RETIREMENT SYSTEM
P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (225) 925-4060 • Fax (225) 925-4062

February 2, 2005

Provost, Salter, Harper & Alford, LLC
8550 United Plaza Blvd., Suite 600
Baton Rouge, LA 70809

Re: Management Letter Response; Audit Year 2003-2004

Gentlemen:

In response to your management letter dated September 8, 2004, we offer the following response. The recommendation for the hiring of an internal auditor has been taken under advisement by the board of trustees. However, because of the size of our system we do not yet anticipate hiring someone for this position. We will continue to study the recommendation and eventually take appropriate action. The recommendation for the adoption of an ethics statement has also been taken under advisement by the board. We began a policy development program this fiscal year with the adoption of a purchasing policy, fixed asset capitalization policy, and a revised investment policy. We anticipate that this program will continue and action will be taken on this recommendation within this fiscal year. Finally, in response to the comment regarding the lack of segregation of duties, this situation has been resolved with the hiring of additional accounting staff. We appreciate you bringing these matters to our attention.

Very truly yours,

Steven Stockstill,
FRS Executive Director