

FIREFIGHTERS' RETIREMENT SYSTEM**REPORT TO MANAGEMENT****JUNE 30, 2006**

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

Release Date 1/3/07



FIREFIGHTERS' RETIREMENT SYSTEM

REPORT TO MANAGEMENT

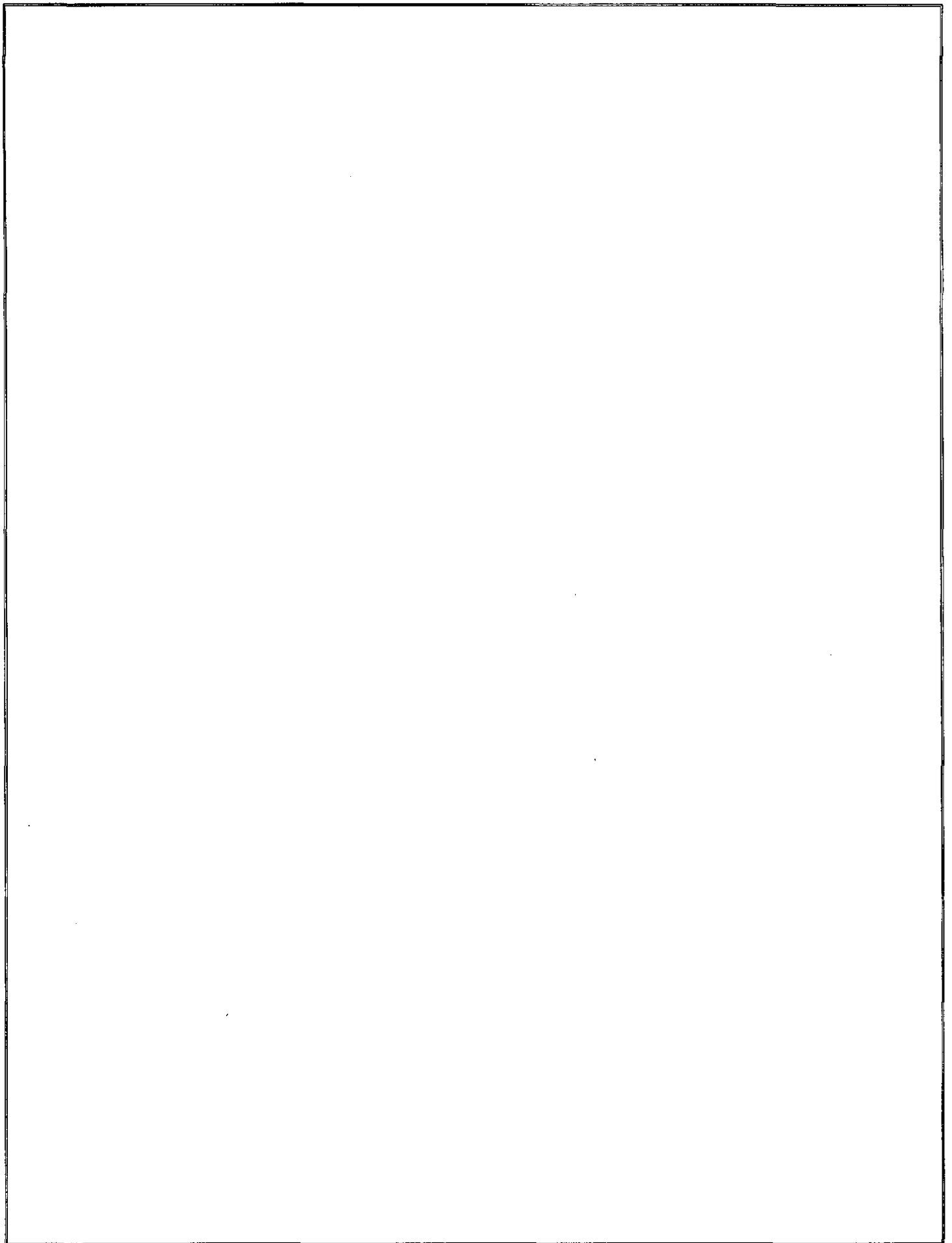
JUNE 30, 2006



Firefighters' Retirement System
2006
Comprehensive Annual Financial Report



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FIREFIGHTERS' RETIREMENT SYSTEM
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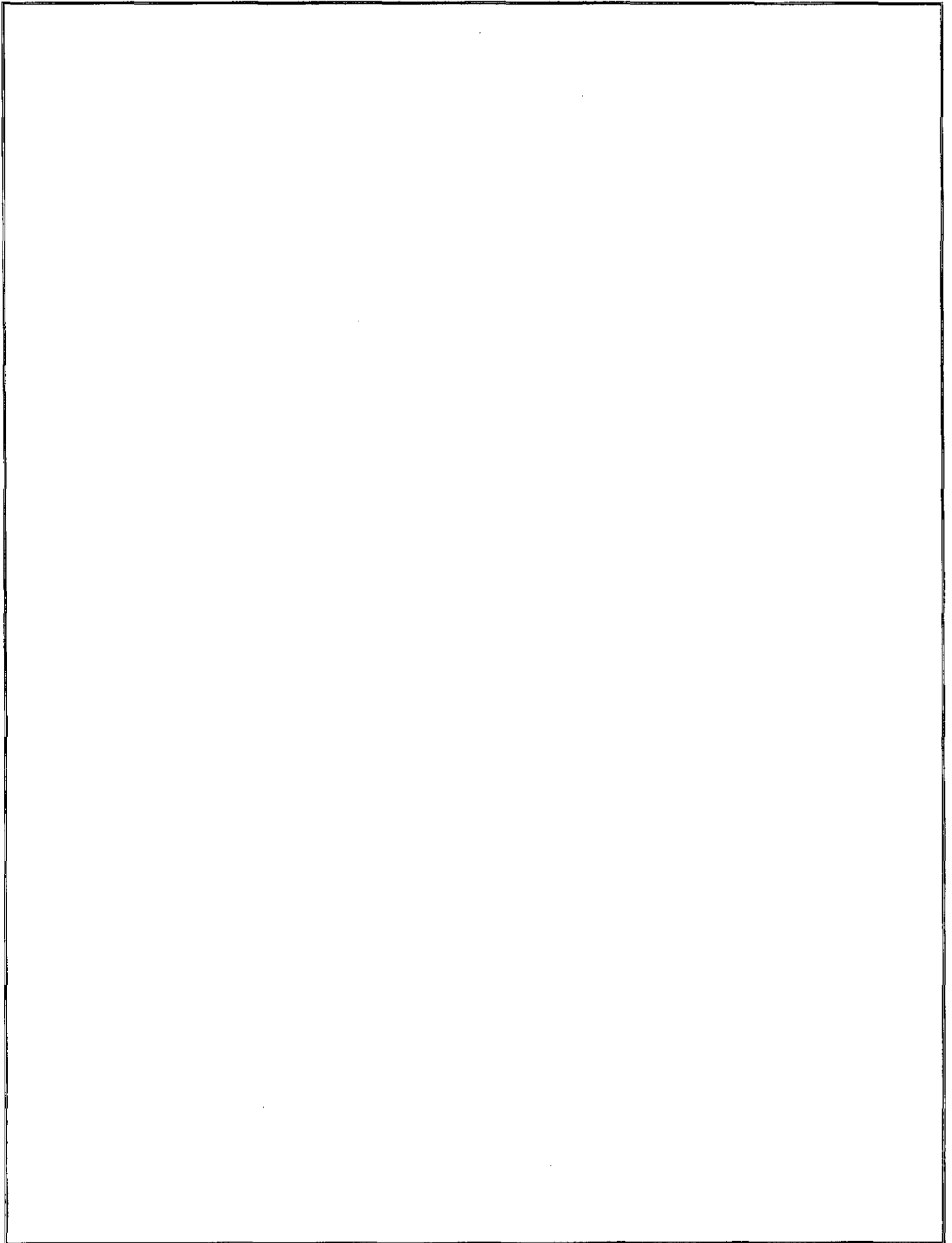
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Firefighters Retirement System



Introductory Section



FIREFIGHTERS' RETIREMENT SYSTEM LETTER OF TRANSMITTAL

November 30, 2006

**Board of Trustees
Firefighters' Retirement System
3100 Brentwood Drive
Baton Rouge, Louisiana 70809**



I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Firefighters' Retirement System (FRS) for the fiscal year ended June 30, 2006. My office is responsible for the management of the system, which was established on January 1, 1980 by Act. No. 434 of 1979. All invested funds, cash, and property are held in the name of FRS for the sole benefit of the membership.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the system. In addition, management is responsible for maintaining a system of adequate internal controls. The controls are designed to serve the following purposes: (1) To provide reasonable assurance that transactions are recorded as necessary, (2) To maintain the accountability for assets, and (3) To permit the preparation of financial statements in accordance with generally accepted accounting principles.

This CAFR is divided into five sections as explained below.

- ❖ The Introductory Section, which contains the letter of transmittal, identification of FRS' administrative organization and board of trustees;
- ❖ The Financial Section, which contains the opinion of the independent auditors, management's discussion and analysis, the financial statements, schedules, and supplementary financial information regarding the funds administered by FRS
- ❖ The Investment Section, which contains information pertaining to the management of the investments of FRS;
- ❖ The Actuarial Section, which contains information regarding the financial condition and financial position of the retirement plan administered by FRS; and
- ❖ The Statistical Section, which contains information regarding FRS participants and finances.

Plan Characteristics

FRS is a cost sharing, multiple-employer, governmental defined benefit plan, established by the state legislature on January 1, 1980, to provide retirement and other benefits for Louisiana firefighters. All invested funds, cash, and property are held in the name of FRS for the sole benefit of the membership. A ten member board of trustees governs FRS.

FIREFIGHTERS' RETIREMENT SYSTEM

Controls

In accordance with the board's and management's goals and policies, FRS maintains a system of internal controls to reasonably assure that assets are properly safeguarded, resources are efficiently and economically employed, and financial information is reliable and accurate. To achieve those objectives, FRS employs advanced computer technology, continuing education for staff, and numerous checks and balances within the control environment. An operating budget for administrative expenses is prepared each year by the staff to address member and employer needs while keeping costs reasonable. The board of trustees must review and approve the annual budget and any changes during the year. In addition to the trustees approval, the budget must be reviewed by the Joint Legislative Committee on the Budget. An independent certified public accounting firm audits the financial statement to ensure that they conform to generally accepted accounting principles in all material respects.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) begins on page 13 and provides an overview and analysis of the system's basic financial statements. This letter of transmittal complements the MD&A and should be read in conjunction with it.

Investments

FRS is responsible for the prudent management of an investment portfolio with a market value of \$937 million. Diversification to reduce risk is evident in the allocation of investment assets. FRS holds a wide range of investments such as domestic and international stocks, investment grade and high-yield bonds, shares of a real estate investment trusts, holdings in various hedge funds and private equity firms. In addition to these asset classes, FRS obtains diversification through various management styles including growth and value, size of company, and industry selected. For fiscal 2006, FRS assets provided a 12.3% return, net of fees, with three and five year averages of 11.2% and 7.1%, respectively. See the investment section and the MD&A for a more detailed discussion of FRS' investment performance.

Funding

The actuary determines the annual funding requirements needed to meet and current and future benefit obligations. Calculations of contributions are based on the system's normal cost and amortization of the unfunded accrued liability. The employer contribution rate established by the Public Retirement Systems' Actuarial Committee (PRSAC) was 18% for 2005-2006 and will be 15.5% for 2006-2007. This will be the third consecutive year of decreasing employer contribution rates.

As of June 30, 2006, FRS was 83.66% funded compared to 80.88% as of June 30, 2005. This increase results from favorable market conditions which produced excess investment returns over the assumed valuation interest rate. Net assets held in trust to pay pension benefits at June 30, 2006 totaled \$964 million which is a 14% increase over the prior year.

FIREFIGHTERS' RETIREMENT SYSTEM

Yearly Highlights and Accomplishments

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

- FRS posted a 12.3% return, net of fees for the year ended June 30, 2006. This is the third consecutive year of double digit returns for FRS. In addition, based on available information, FRS boasted one of the highest returning portfolios of all state and statewide retirement systems, net of fees.
- A tremendous challenge for the FRS staff and its members was the tragedy of Hurricane Katrina and Rita. Many of our members were impacted by this disaster and had to relocate to areas in and out of Louisiana. Through the hard work of the FRS staff and its board, the system was able to continue servicing its members through this event without interruption. In addition, all members were eventually located and their benefits paid.
- An FRS sponsored bill was successfully passed through the legislature this year that allowed our members to choose two options for earning DROP interest. Members can now earn DROP interest at the system's portfolio rate or at the money market rate. This increased flexibility and potential earning power will aid our members in maximizing their retirement benefits.

Acknowledgements and Considerations

The FRS staff and myself would like to thank the board of trustees for their support and dedication. Hard work by the FRS board, staff, and professional consultants resulted in another year of increased investment earnings, reduced employer contributions, reduced unfunded accrued liability, and increase benefits for retirees. The preparation of this report is made possible by the commitment and dedication of the entire FRS staff.

Steven Stockstill
Executive Director

**FIREFIGHTERS' RETIREMENT SYSTEM
Board of Trustees**



**Charlie Fredieu
Board Chairman
Retiree Representative**



**Mayor Clarence Hawkins
Board Vice Chairman
LMA Representative**



**Stacy Birdwell
PFFA Representative**



**Mayor Dudley Dixon
LMA Representative**



**Chief Paul Smith
PFFA Representative**

**FIREFIGHTERS' RETIREMENT SYSTEM
Board of Trustees**



Honorable John N Kennedy
State Treasurer



Honorable Pete Schneider, III
Chairman, House Retirement



Honorable Butch Gautreaux
Chairman, Senate Retirement



Barbara Goodson
Division of Administration



Chief Sammy Halphen
Fire Chief Representative

FIREFIGHTERS' RETIREMENT SYSTEM
Administrative Staff



Steven Stockstill
Executive Director



Kelli Chandler, CPA
Controller/Administrator



Jason Starns
Benefit Analyst 3



Rita Smith
Accounting Technician



Debbie Charleville
Administrative Specialist 2

FIREFIGHTERS' RETIREMENT SYSTEM

Professional Consultants

ACTUARY

G.S. Curran & Co.

AUDITORS

Postlethwaite & Netterville, APAC, CPA

LEGAL CONSULTANTS

Klausner & Kuffman
Baron & Budd
Bernstein Litowitz Berger & Grossman LLP

LARGE CAP EQUITY ADVISORS

Merrill Lynch
Freeman Associates
Northern Trust

SMALL-MID CAP EQUITY ADVISORS

AXA Rosenberg Investment Management
Dupont Capital Management

INTERNATIONAL EQUITY ADVISORS

Thornburg International Equity
LSV International Equity
Fisher Investments

DOMESTIC FIXED INCOME ADVISORS

PIMCO
Orleans Capital

HIGH YIELD FIXED INCOME ADVISORS

Regions Morgan Keegan

EMERGING MARKET FIXED INCOME

Ashmore

REIT ADVISORS

Invesco

HEDGE FUND ADVISORS

The Clinton Group
Ironwood Partners
Lighthouse Diversified
Scoggins
GMT Capital Corporation
Argonaut Global
Emory Partners

PRIVATE EQUITY ADVISORS

Murphree Venture
Louisiana Fund I
Diversified Trust Company
Americus
Montagu Newhall
Sentinel
DuPont Capital Management

SECURITIES LENDING ADVISORS

JPMorgan Chase Bank

GLOBAL CUSTODIAN

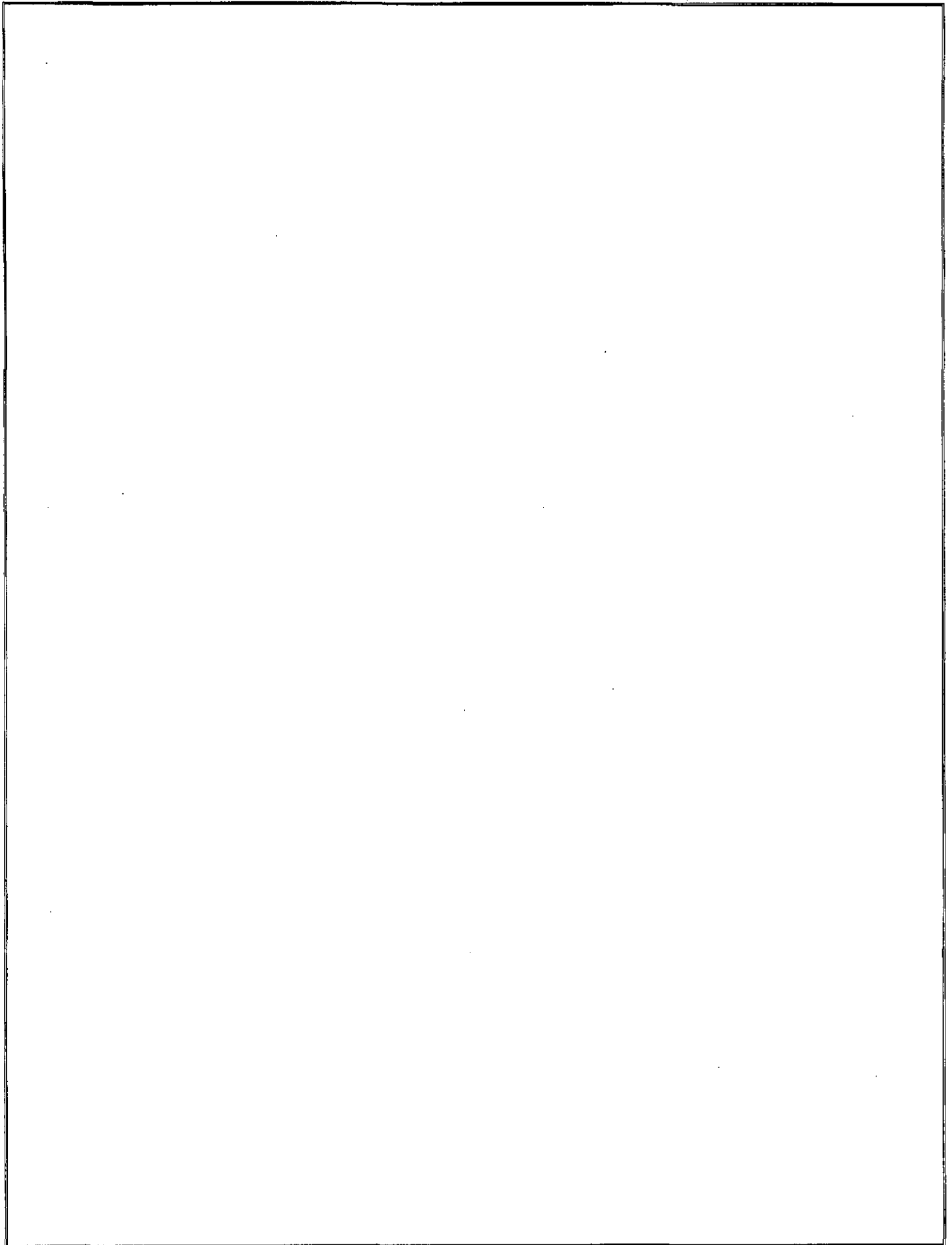
JPMorgan Chase Bank

INVESTMENT PERFORMANCE CONSULTANTS

Consulting Services Group

IT CONSULTANTS

Southwest Computer Bureau



Firefighters Retirement System



Finance Section



Postlethwaite & Netterville

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INDEPENDENT AUDITORS' REPORT

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

We have audited the statement of plan net assets of the Firefighters' Retirement System as of June 30, 2006, 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 the 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, 2006, and the changes in the plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Supplementary Information, Schedule of Funding Progress and Schedule of Employer Contributions and Other Contributing Entities as listed as Supplementary Information in the Table of Contents are not a required part of the financial statements but are supplementary information required by principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Firefighters Retirement System. The accompanying financial information as listed as Supplementary Information in the Table of Contents as Trustees' Per Diem and Administrative Expense Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2006 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 result 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.

Pestlithwaite & Netterville
Baton Rouge, Louisiana
November 30, 2006



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

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, 2006, and have issued our report thereon dated November 30, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Firefighters' Retirements System'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 reportable 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Firefighters' Retirement System's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the 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.

Postlethwaite & Netterville
Baton Rouge, Louisiana
November 30, 2006

FIREFIGHTERS' RETIREMENT SYSTEM
Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

The discussion and analysis of the Firefighters' Retirement System (FRS) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ended June 30, 2006. Please review it in conjunction with the Financial Statements which begin on page 23.

- ❖ FRS' net assets held in trust increased by \$115 million, or 14%.
- ❖ FRS' investment holdings increased from \$835 million to \$937 million which is an increase of \$102 million or 12%.
- ❖ The rate of return on the estimated fair value of FRS investments was 12.3%, net of fees in 2006 as compared to 10.4% for 2005.
- ❖ The system's funded ratio improved to 83.66% in 2006, which is up from 80.88% in 2005.
- ❖ The unfunded actuarial accrued liability decreased from \$194 million in 2005 to \$178 million in 2006, a decrease of \$16 million or 8%.
- ❖ FRS had a decrease in total contributions of \$7 million or 17% but also experienced an overall increase in benefit payments and transfers of \$400 thousand or 1%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Basic financial statements
2. Notes to the basic financial statements
3. Required supplementary information
4. Other supplementary schedules

FIREFIGHTERS' RETIREMENT SYSTEM

Management Discussion and Analysis

The statement of plan net assets reports the pension fund's assets, liabilities, and resulting net assets held in trust for pension benefits. It discloses the financial position of FRS as of June 30, 2006. The statement of changes in net assets reports the results of the pension fund's operations during the year disclosing the additions to and deductions from the plan net assets. The notes to the financial statements provide additional information and insight that is essential to gaining a full understanding of the data provided in the statements.

- ❖ Note 1 provides a general description of FRS, information regarding plan membership, and plan benefit provisions.
- ❖ Note 2 provides a summary of significant accounting policies and plan asset matters; including the basis of accounting; methods used to value investments; methods used to value property and equipment; and adoption of new accounting principles.
- ❖ Note 3 provides information regarding required reserves.
- ❖ Note 4 provides information regarding member and employer contribution requirements.
- ❖ Note 5 describes investments, including a discussion of credit risk, interest rate risk and foreign currency risk.
- ❖ Note 6 provides information regarding 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.

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

FIREFIGHTERS' RETIREMENT SYSTEM
Management Discussion and Analysis

STATEMENT OF PLAN NET ASSETS

TABLE 1
PLAN NET ASSETS
(in thousands)

	<u>2006</u>	<u>2005</u>
Cash and Investments	\$959,048	\$842,405
Receivables	5,980	8,452
Capital Assets	1,771	1,789
Notes Receivable	6,142	6,613
Prepaid Expense and Other	7	10
Total Assets	\$972,948	\$859,269
Liabilities	9,143	10,769
Plan Net Assets	\$963,805	\$848,500

FRS' net assets increased by \$115 million year over year. This increase was primarily a result of an increase in net investment holdings by \$117 million offset by a decrease in net receivables.

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 increased \$350 thousand or 3%, and employer contributions decreased \$7.6 million or 23%. The insurance premium tax fund apportionment increased \$1.1 million or 6%, and net investment income increased \$25.7 million or 33%.

TABLE 2
ADDITIONS TO PLAN NET ASSETS
(in thousands)

	<u>2006</u>	<u>2005</u>
Contributions	\$36,388	\$43,648
Net Investment Income	104,279	78,547
Insurance Premium Taxes	18,197	17,096
Other Operating Revenues	491	493
Total Additions	\$159,355	\$139,784

FIREFIGHTERS' RETIREMENT SYSTEM
Management Discussion and Analysis

STATEMENT OF CHANGES IN PLAN NET ASSETS (continued)

Deductions from plan assets increased \$491 thousand or 1%. This increase was primarily due to increases in retirement benefits of \$139 thousand, disability benefits of \$289 thousand and administrative expenses of \$81 thousand.

TABLE 3
 DEDUCTIONS FROM PLAN NET ASSETS
 (in thousands)

	2006	2005
Retirement Benefits	\$39,510	\$39,371
Disability Benefits	2,983	2,694
Refunds	840	831
Transfers	49	77
Administrative Expenses	668	586
Total Deductions	\$44,050	\$43,559

INVESTMENTS

FRS is responsible for the prudent management of funds held in trust for the exclusive benefit of our members' pensions. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Because investment income is vital to FRS' current and continued financial stability, trustees have a fiduciary responsibility to act prudently and discretely when making investment decisions.

During the current year, FRS further reduced its exposure to fixed income and increased its alternative investment holdings. In addition, the asset class of emerging market debt was added to the FRS portfolio. See the investment section starting on page 44 for more information regarding FRS' investments.

The following table summarizes the investment return by asset class for the year ended June 30, 2006, for the trailing three years, and trailing five years.

FIREFIGHTERS' RETIREMENT SYSTEM
Management Discussion and Analysis

TABLE 4
INVESTMENT RETURNS BY ASSET CLASS

	Current Year	Trailing 3 Years	Trailing 5 Years
US Large Cap			
Growth	12.5%	16.6%	5.3%
Value	10.6%	12.9%	4.2%
Index	8.7%	11.2%	2.8%
US Mid/Small Cap			
Value	12.9%	19.6%	20.7%
International Equity			
Core	31.3%	26.6%	N/A
Value	28.7%	28.1%	N/A
Index	27.4%	23.3%	N/A
Fixed Income			
Core	-5%	2.5%	5.5%
High-Yield	9.4%	12.0%	N/A
Emerging Markets	14.1%*	N/A	N/A
Alternatives			
REITs	24.6%	29.8%	N/A
Hedge Funds	94%*	N/A	N/A
Private Equity	-31.6%	N/A	N/A

* Although these asset classes have been held for less than one year, returns are shown as if the asset had been in the FRS portfolio for an entire year.

FIREFIGHTERS' RETIREMENT SYSTEM

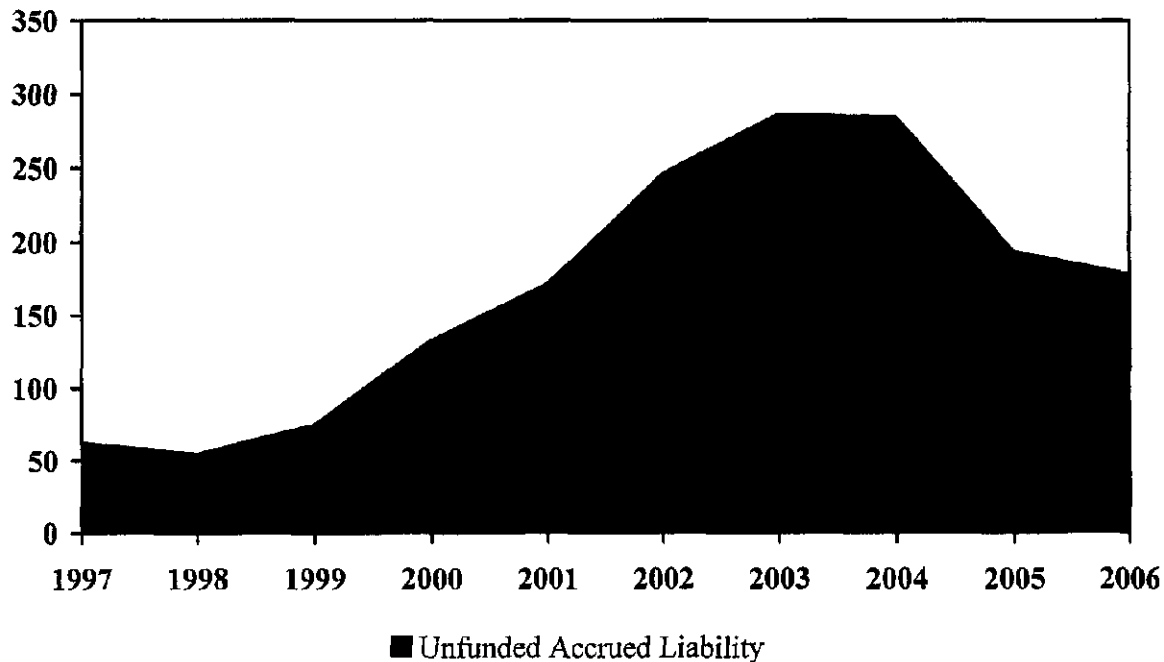
FUNDING STATUS

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

An indicator of funding status is the ratio of the actuarial present value of the assets to the actuarial present value of future benefits when using the entry age normal method. An increase in this percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in the financial markets and the collection of actuarially required contributions also have a significant impact on the funding status of the system.

The following chart shows the level of the unfunded accrued liability (in millions) over time. See the actuarial section for more information regarding the funded status of the system.

Unfunded Accrued Liability



FIREFIGHTERS' RETIREMENT SYSTEM

CONTACTING THE PLANS' FINANCIAL MANAGEMENT

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

FIREFIGHTERS' RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS

JUNE 30, 2006

ASSETS

Cash and cash equivalents	<u>\$ 21,653,349</u>
Receivables	
Employer	3,197,879
Employee	993,304
Interest and dividends	<u>1,789,028</u>
Total receivables	<u>5,980,211</u>
Investments at fair value	
U.S. government securities	58,477,024
Corporate bonds	98,425,110
Common stocks	611,646,571
Alternative investments	<u>168,846,064</u>
Total investments at fair value	937,394,769
Property, building, equipment and fixtures, net of accumulated depreciation of \$354,533	1,770,724
7% notes receivable from merged systems	6,141,859
Prepaid expenses and other	<u>7,548</u>
TOTAL ASSETS	<u><u>\$ 972,948,460</u></u>

LIABILITIES

Pending investment trades	\$ 8,947,526
Accounts payable	<u>195,712</u>
TOTAL LIABILITIES	<u>\$ 9,143,238</u>

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS \$ 963,805,222

The accompanying notes are an integral part of this statement.

FIREFIGHTERS' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED JUNE 30, 2006

ADDITIONS

Contributions	
Employer	\$ 25,287,368
Employee	11,100,322
Total Contributions	36,387,690
Investment Income	
Net appreciation in fair value of investments	82,871,421
Interest and dividends	25,761,542
	108,632,963
Less investment expenses	4,354,147
	104,278,816
Interest from notes receivable	462,735
State appropriations from insurance premium taxes	18,197,358
Rental income	28,391
	159,354,990

DEDUCTIONS

Retirement benefits	39,509,957
Disability benefits	2,982,855
Refunds to terminated employees	840,612
Transfers to other systems	48,618
Administrative expenses	667,651
Total deductions	44,049,693

NET INCREASE 115,305,297

**NET ASSETS HELD IN TRUST FOR PENSION
BENEFITS**

Beginning of year	848,499,925
End of year	\$ 963,805,222

The accompanying notes are an integral part of this statement.

FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Financial Statements

1. PLAN DESCRIPTION

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

General

FRS is a cost sharing, multiple-employer, governmental defined benefit pension plan covering firefighters employed by any municipality, parish, or fire protection district of the State of Louisiana, under the provisions of Louisiana Revised Statutes 11:2251 through 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 and who earn more than \$375 per month.

Reporting Entity

FRS is not a component unit of the State of Louisiana Consolidated Annual Financial Report. The accompanying financial statements reflect the activity of the System.

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

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

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

FRS was created by the State of Louisiana and is governed by a ten-member Board of Trustees (the Board). The Board is responsible for administering the assets of FRS and for making policy decisions regarding investments. Two of the Trustees are elected by the professional firefighters association, one Trustee is elected by the fire chiefs and, one is a retired firefighter. Two are appointed by the Louisiana Municipal Association. The remaining membership of the Board consists of one member from the State Treasurer's office, one from the Division of Administration and the chairmen of the Senate and House Retirement Committees.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

1. PLAN DESCRIPTION (continued)

Plan Membership

Employer and employee membership data at June 30, 2006 is as follows:

Employer Members

Cities	57
Parishes	18
Special districts	<u>34</u>
Total employer members	<u>109</u>

Employee Members

Current retirees and beneficiaries	1,477
Drop participants	111
Terminated vested participants	52
Terminated (due a refund)	249
Active plan participants	<u>3,534</u>
Total employee members	<u>5,423</u>

Plan Benefits

Employees with 20 or more years of service who have attained age 50, or employees who have 12 years of service who have attained age 55, or 25 years of service at any age are entitled to annual pension benefits equal to 3 1/3 % of their average final compensation based on the 36 consecutive months of highest pay multiplied by their total years of service, not to exceed 100%. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity.

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

1. At death, their beneficiary will receive a lump sum payment based on the present value of the employee's annuity account balance.
2. At death, their beneficiary will receive a life annuity equal to the employee's reduced retirement allowance.
3. At death, their beneficiary will receive a life annuity equal to 1/2 of the employee's reduced retirement allowance.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

1. PLAN DESCRIPTION (continued)

Plan Benefits (continued)

4. Any other benefit certified by the actuary and approved by the Board of Trustees that will be equivalent in value to the employee's retirement allowance limited to a spouse and/or minor children.
5. The member can select a reduced option 2 benefit. However, if the beneficiary predeceases the retiree, the benefit will convert to the maximum. This option is limited to a spouse and/or minor children or handicapped children.
6. The member can select a reduced option 3 benefit. However, if the beneficiary predeceases the retiree, the benefit will convert to the maximum. This option is limited to a spouse and/or minor children.

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, survivor benefit equal to member's benefit.

Disability Benefits

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

1. Any member totally disabled from injury received in the line of duty, shall be paid, on a monthly basis, an annual pension of 60% of the average final compensation being received at the time of the disability.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

1. **PLAN DESCRIPTION** (continued)

Disability Benefits (continued)

2. Any member of the System who has become disabled or incapacitated because of continued illness or as a result of any injury received, even though not in the line of duty, and who has 5 years of creditable service, but is not eligible for retirement under the provisions of R. S. 11:2256 may apply for retirement under the provisions of R.S. 11:2258 and shall be retired on 75% of the retirement salary to which he would be entitled under R. S. 11:2256 if he were otherwise eligible there under 25% of the member's average salary, whichever is greater.
3. Any retired member or DROP plan participant who becomes disabled for any reason provided for by law shall be permitted to apply for conversion of a service retirement to a service connected disability retirement under R.S. 11:2258(B)(1)(e).
4. Should a member who is on disability retirement die and leave a surviving spouse, the surviving spouse shall receive a benefit of \$200 per month. When the member takes disability retirement, he may, in addition, take an actuarially reduced benefit in which case the member's surviving spouse shall receive 50% of the disability benefit being paid immediately prior to the death of the disabled retiree. If the surviving spouse remarries prior to age 55, such benefits shall cease; however, the benefits shall resume upon subsequent divorce or death of the new spouse, and the approval of the board of trustees.

Deferred Retirement Option Plan

After completing 20 years of creditable service and age 50 or 25 years at any age, a member may elect to participate in the deferred retirement option plan (DROP) for up to 36 months.

Upon commencement of participation in the deferred retirement option plan, employer and employee contributions to the System cease. The monthly retirement benefit that would have been payable is paid into the deferred retirement option plan account.

Upon termination of employment, a participant in the program shall receive, at his option, a lump-sum payment from the account or an annuity based on the deferred retirement option plan account balance in addition to his regular monthly benefit.

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

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

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

1. **PLAN DESCRIPTION** (continued)

Deferred Retirement Option Plan (continued)

During the year ended June 30, 2006, \$7,687,144 was credited to deferred retirement option plan accounts on behalf of 111 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 POLICIES**

Basis of Accounting

The System's financial statements are prepared in conformity with accounting principles accepted in the United States using the accrual basis of accounting. Contributions are recognized in the period in which the employee is compensated for services. Benefits and refunds are recognized when due and payable. Investment purchases and sales are recorded as of their trade date.

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 the portfolio to no more than 10% of the assets under management. Bonds should be between 25-75% of total assets and equities should be between 30% and the maximum amount allowed by the 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.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments (continued)

The equity investments must be domestic securities registered on a national exchange regulated under Title 1 of the Securities Exchange Act of 1934. 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.

As required by GASB No. 25, *Financial Reporting for Defined Benefit Pension plans and Note Disclosures for Defined Contribution Plans*, investments in fixed-income securities and common stock are reported at fair market value based on quoted market prices when available. Investments that do not have an established market value are reported at estimated fair value. Interest income is recognized on the accrual basis as earned.

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.

Property and Equipment

Property and equipment are stated at historical cost less an allowance for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 40 years for buildings and 3 to fifteen years for equipment and furniture. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

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 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. For the year ended June 30, 2006, employer contributions were 18% of covered payroll.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

3. CONTRIBUTIONS AND RESERVES (continued)

Administrative costs of the System are financed through contributions and earnings. According to state statute, contributions for all employers are actuarially determined each year. 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 net assets is legally restricted for a specific future use. The nature and purpose of these reserves are explained below. Overall, the System is 83.66% funded.

Expense Fund Reserve

The Expense Fund Reserve provides for general and administrative expenses of the System and those expenses not funded through other specific legislative appropriations. Funding consists of transfers from the pension accumulation reserve and is made as needed.

Annuity Savings

The Annuity Savings is credited with contributions made by members of the System. When a member terminates his service, or upon his death, before qualifying for a benefit, the refund of his contributions is made from this reserve. If a member dies and there is a survivor who is eligible for a benefit, the amount of the member's accumulated contributions is transferred from the Annuity Savings to the Annuity Reserve to provide part of the benefits. The Annuity Savings per the actuarial report as of June 30, 2006 is \$98,237,619 and 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 per the actuarial report as of June 30, 2006 is \$408,304,774 and is 87% funded.

Annuity Reserve

The Annuity Reserve consists of the reserves for all pensions, excluding cost-of-living increases granted to retired members and is the reserve account from which such pensions and annuities are paid. Survivors of deceased beneficiaries also receive benefits from this reserve account. The Annuity Reserve per the actuarial report as of June 30, 2006 is \$405,559,726 and is fully funded.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

3. CONTRIBUTIONS AND RESERVES (continued)

Deferred Retirement Option Account

The Deferred Retirement Option Account consists of the reserves for all members who, upon retirement eligibility, elect to deposit into this account an amount equal to the member's monthly benefit if he had retired. A member can only participate in the program for three years, and upon termination may receive his benefits in a lump sum payment or by a true annuity. The deferred retirement option per the actuarial report as of June 30, 2006 is \$50,930,904 and is fully funded.

Initial Benefit Option Plan Account

The Initial Benefit Option Plan Account consists of the reserves for all members who, upon retirement eligibility, elect to deposit into this account an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amounts may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account. The Initial Benefit Option per the actuarial report as of June 30, 2006 is \$772,199 and is fully funded.

4. REQUIRED CONTRIBUTIONS

FRS funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, and are sufficient to accumulate assets to pay benefits when due. The employer contribution rate is determined using the entry age 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 a 15 year period 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 million (\$25m employer and \$11m employee and \$18m from the insurance premium tax fund) were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2005.

Significant actuarial assumptions used to compute contribution requirements are: (1) a rate of return on the investment of present and future assets of 7.5% per year compounded annually; (2) projected salary increases that vary according to years of service ranging from 14.7% in the first year of service to 5.3% after 14 years; (3) pre- and post mortality life expectancies of participants based on the 1994 Uninsured Pensioner 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 0.105% at age 34 and below to 0.3416% at age 60 and above). The foregoing actuarial assumptions are based on the presumptions that the plan will continue.

FIREFIGHTERS' RETIREMENT SYSTEM Notes to the Financial Statements

5. CASH AND INVESTMENTS

Deposit and Investment Risk Disclosure

Statement number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes various types of investment risk and FRS exposure to each type. The tables presented include disclosures regarding credit risk, interest rate risk and foreign currency risk in accordance with GASB Statement No. 40 and are designed to inform statement of net asset users about investment risks that could affect FRS' ability to meet obligations. These tables classify investment risk by type, while the statement of net assets present investments by asset class. Therefore, totals shown on the tables may not be comparable to the amounts shown for each individual asset class on the statement of net assets. Standard & Poor's rates investment grade securities, using AAA, AA, A, and BBB. Securities with these ratings are considered financially secure. For non-investment grade securities, the ratings BB, B, CCC, CC, C and D are used. These ratings indicate that the security may be "vulnerable" and as such, is regarded as having vulnerable characteristics that may outweigh its strengths.

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 \$4,511,902 and the bank balance was \$4,690,858. All of the bank balance was covered by federal depository insurance or collateral pledged in the name of the System.

The System's short-term funds may be invested in cash equivalent securities, which are defined as any fixed income investments with less than one year with ratings by Moody's and S&P of A or better, Money Market Funds, or custodian bank short-term investment funds.

Louisiana Asset Management Pool

The System also invested \$8.7 million at June 30, 2006, in the Louisiana Asset Management Pool (LAMP), Inc. a local government investment pool. In accordance with GASB Codification Section 150.125, the investment in LAMP at June 30, 2006 is not categorized in the three risk categories provided by GASB Codification Section 150.125 because the investment is in a pool of funds and therefore not evidenced by securities that exist in physical or book entry form.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LSA - R.S. 33:2955. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

5. **CASH AND INVESTMENTS** (continued)

Louisiana Asset Management Pool (continued)

Effective August 1, 2001, LAMP's investment guidelines were amended to permit the investment in government-only money market funds. In its 2001 Regular Session, the Louisiana Legislature (Senate Bill No. 512, Act 701) enacted LSA-R.S. 33:2955(A)(1)(h) which allows all municipalities, parishes, school boards, and any other political subdivisions of the State to invest in "Investment grade (A-1/P-1) commercial paper of domestic United States corporations." Effective October 1, 2001, LAMP's Investment Guidelines were amended to allow the limited investment in A-1 or A-1+ commercial paper.

The dollar-weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP, and the value of the position in the external investment pool is the same as the value of the pool shares. LAMP investments have been included in equity securities as of June 30, 2006.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and its board of directors. LAMP is not registered with the SEC as an investment company.

Realized and Unrealized Gains and Losses

During the year, the System's investments (including those bought, sold, and held during the year) appreciated in value by \$82.8 million which was comprised of \$54.2 million in realized gains and \$28.6 in unrealized gains for the year ended June 30, 2006.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

5. CASH AND INVESTMENTS (continued)

The following table presents the fair value of investments permissible under the rules, objectives and guidelines of the System as of June 30, 2006:

Investment Type	Fair Value	Cost
Asset backed obligations	\$14,527,056	\$14,787,317
Closed end equity mutual funds	1,839,315	1,792,663
Common stocks	291,719,125	253,255,953
Corporate bonds and notes	32,588,335	33,938,480
Federal agency securities	41,422,492	42,088,644
Foreign bonds	895,805	939,764
Foreign stock	1,907,134	1,877,160
Government National Mortgage Association Pools	2,428,784	2,457,317
Limited partnerships	33,448,151	31,628,913
Municipal/territory bonds	2,672,622	2,346,652
Open end equity mutual funds	127,102,232	122,751,017
Open end fixed income mutual funds	50,413,943	52,037,674
Other common funds	288,923,135	226,738,045
Real estate investment trusts	35,520,436	34,591,380
Rights/warrants	31,967	30,829
Small business administration loans	8,428,875	8,811,884
Short term investments	1,112	919
U.S. Treasury bonds and notes	3,524,250	3,523,423
TOTAL	<u>\$937,394,769</u>	<u>\$833,598,034</u>

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

5. CASH AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent, but not in the System's name.

Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission. FRS had no custodial credit risk as of June 30, 2006.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The standardized rating systems are a good tool with which to assess credit risk on debt obligations. The System requires that debt obligations be investment grade at time of purchase (BBB or higher as rated by Standard and Poor's), unless otherwise authorized by the board of trustees, and that the average quality of the portfolio be at least A.

The following table is provided for use in determining the Systems exposure to credit risk.

<u>Standard and Poor's Rating</u>	<u>Fair Value</u>
Government securities	\$58,477,024
AAA	15,069,620
AA	939,259
AA-	1,519,264
A+	6,398,344
A	4,209,777
A-	5,027,326
BBB+	5,821,303
BBB	5,612,025
BBB-	1,476,961
BB+	1,005,190
Not rated	932,126
TOTAL	\$106,488,219

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

5. CASH AND INVESTMENTS (continued)

Concentration of Credit risk

Concentration of credit risk is defined as the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by lack of diversification. The System's investment policy limits the concentration to any one issue, other than U.S. Government or U.S. Government agency bonds or notes, of five percent of the fair value of total investments. At June 30, 2006, the System had exposure of less than five percent in any single investment issue.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments.

The following table shows the System's fixed income investments and maturities in actively-managed accounts at June 30, 2006:

<u>INVESTMENT TYPE</u>	<u>Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>Greater than 10</u>
Asset-backed obligations	\$14,527,056	\$0	\$452,460	\$0	\$14,074,596
Corporate bonds and notes	32,588,335	100,228	12,136,643	14,195,898	6,155,566
Federal agency securities	41,422,492	0	173,769	184,827	41,063,896
Foreign bonds	895,805	396,871	0	0	498,934
Government national mortgage association pools	2,428,784	0	57,865	0	2,371,219
Municipal/territory bonds	2,672,622	0	0	0	2,672,622
Small business administration loans	8,428,875	0	224,799	0	8,204,076
U.S. treasury bonds and notes	3,524,250	0	0	0	3,524,250
TOTAL	\$106,488,219	\$497,099	\$13,048,236	\$14,380,725	\$78,565,159

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

5. CASH AND INVESTMENTS (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment on deposit. At June 30, 2006, FRS international investments were limited to participation in external investment pools of international equity investment managers. There were no direct investments in international fixed-income securities.

Alternative Investments

At June 30, 2006 FRS had investments in limited partnership arrangements which are listed in the accompanying financial statements as alternative investments and as of June 30, 2006 had a cost basis of \$152,723,430 and an estimated fair value of \$168,846,065.

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 fair value of the loan, plus accrued interest. Other securities are loaned for collateral valued at 105% of the fair value of the securities plus any accrued interest. As of June 30, 2006 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 fair 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>Security Type</u>	<u>Fair Value of Securities Held 06/30/2006</u>	<u>Fair Value of Collateral Held 06/30/2006</u>
U.S. Government obligations	\$ 0	\$ 0
Domestic bonds	3,861,942	3,880,000
Common stock	35,553,364	36,812,175
International equity/ADR's	<u>24,042,206</u>	<u>23,613,624</u>
	<u>\$63,457,512</u>	<u>\$ 64,305,799</u>

The underlying securities representing collateral on the securities lending transactions are not available for the System or its agent to pledge or sell except in the case of a borrower default. Accordingly, neither the collateral nor the related liability involved in the lending transaction is reported in the Statement of Plan Net Assets, in accordance with GASB 28, paragraph 7.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to Financial Statements

7. NOTES RECEIVABLE FROM MERGED SYSTEMS

7% notes receivables from merged systems at June 30, 2006 consisted of the following:

<u>System</u>	<u>Annual Payments (Including Interest)</u>	<u>Payment Due</u>	<u>Balance</u>
Bastrop	\$ 69,910	December 7, 2010	\$ 306,710
Bogalusa	127,069	January 1, 2010	430,361
Bogalusa Retirees	91,526	January 15, 2010	310,017
Kenner	87,088	April 1, 2029	1,081,492
Kenner Retirees	142,697	April 1, 2029	1,608,512
New Iberia	166,288	November 4, 2010	681,814
New Iberia Retirees	110,352	January 1, 2013	594,721
West Monroe	<u>171,340</u>	January 1, 2015	<u>1,128,232</u>
	<u>\$ 966,270</u>		<u>\$ 6,141,859</u>

During the year ended June 30, 2006, members transferred into FRS who had previously been members of other state or statewide retirement systems due to transfers (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 \$137,487.

8. PROPERTY AND EQUIPMENT

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

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
Equipment	\$27,461	\$13,496	\$-	\$40,957
Furniture	59,346	-	-	59,346
Computer software	109,468	4,248	-	113,716
Land	1,066,778	-	-	1,066,778
Building	734,720	-	-	734,720
Construction in progress	<u>109,741</u>	<u>-</u>	<u>-</u>	<u>109,741</u>
	<u>2,107,514</u>	<u>17,744</u>	<u>-</u>	<u>2,125,258</u>
Accumulated depreciation	<u>319,075</u>	<u>35,458</u>	<u>-</u>	<u>354,533</u>
Net property and equipment	<u>\$1,788,439</u>			<u>\$1,770,724</u>

Depreciation expenses for the year ended June 30, 2006 was \$35,458.

FIREFIGHTERS' RETIREMENT SYSTEM
Notes to the Financial Statements

9. CONCENTRATIONS OF CREDIT RISKS

FRS has notes receivable from municipalities 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 6, FRS 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.

FRS is operating as a tax qualified plan and is currently seeking a formal determination of this status from the Internal Revenue Service.

FIREFIGHTERS' RETIREMENT SYSTEM
SUPPLEMENTARY INFORMATION

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, 2006
Actuarial cost method	Entry Age
Amortization method	Level dollar - closed
Remaining amortization period	18 years
Asset valuation method	Market value adjusted to defer 1/2 of all realized and unrealized capital gains and losses accrued during the fiscal year.
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increase	5.3% - 14.7%
Cost of living adjustments	Only those previously granted
Investment smoothing	5 year

*Includes inflation at 3.25%

FIREFIGHTERS' RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b-a)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/06	911,329,622	1,089,280,137	177,950,515	83.66%	147,631,087	120.54%
06/30/05	819,240,156	1,012,901,863	193,661,707	80.88%	141,292,966	137.06%
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	944,688,340	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	646,606,069	779,541,318	132,935,249	82.95%	100,504,497	132.27%
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%

FIREFIGHTERS' RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS AND OTHER CONTRIBUTING ENTITIES

June 30, 2006

Year Ended June 30	Employer Contributions		State of Louisiana	
	Annual Required Contribution	Percentage Contribution	Annual Required Contribution	Percentage Contribution
2006	\$22,132,922	100.00%	\$18,119,048	100.00%
2005	31,065,230	100.00%	16,537,682	100.00%
2004	29,847,861	100.00%	16,114,672	100.00%
2003	25,046,668	52.70%	14,668,649	100.00%
2002	10,206,462	100.00%	24,667,309	72.10%
2001	9,526,940	100.00%	19,726,353	100.00%
2000	8,802,352	100.00%	11,597,261	100.00%
1999	7,545,028	100.00%	9,020,724	100.00%
1998	6,784,748	100.00%	9,648,122	100.00%
1997	6,381,641	100.00%	8,960,220	100.00%
1996	6,236,450	100.00%	6,291,800	100.00%

FIREFIGHTERS' RETIREMENT SYSTEM

TRUSTEES PER DIEM

Year Ended June 30, 2006

	<u>Number of Meetings</u>	<u>Per Diem</u>
Charlie Fredieu	13	\$ 975
Paul Smith	9	-
Stacy Birdwell	13	975
Bill Schmaltz	4	-
Treasurer John Kennedy or designee	7	-
Commissioner Jerry Luke LeBlanc or designee	7	-
Senator Butch Gauthreaux or designee	8	-
Mayor Dudley Dixon	10	750
Mayor Clarence Hawkins	11	825
Sammy Halphen	6	450
Representative Pete Schneider	0	-
Total		<u>\$ 3,975</u>

There were a total of 13 board meeting days. The board members receive \$75 per diem for each meeting. Some members do not accept per diem or are paid by other entities.

**FIREFIGHTERS' RETIREMENT SYSTEM
ADMINISTRATIVE EXPENSE SCHEDULE**

Human Resource:		
Staff Salaries	302,174	
Payroll Taxes	4,268	
Employee Retirement Expense	49,528	
Insurance	36,099	
Total Human Resource		392,069
Professional Services:		
Actuarial	47,972	
IT Support	15,317	
Accounting	23,341	
Investigative Services	333	
Medical Exams	31,359	
Bank Service Charge	7,568	
Contract Services	334	
Total Professional Services		126,224
Communication:		
Printing	1,951	
Telephone	5,951	
Postage	15,475	
Supplies	11,154	
Dues and Subscriptions	5,889	
Advertising	214	
Total Communication		40,634
Travel		
Board Member Per Diem	3,675	
Travel	26,015	
Education Seminars	1,135	
Total Travel		30,825
Building and Equipment		
Utilities	14,410	
Building Maintenance	38,702	
Short-lived Equipment	5,683	
Equipment Maintenance	10,864	
Depreciation	35,458	
Insurance - General	3,441	
Total Building and Equipment		108,558
Miscellaneous:		
Net, Interest Expense (Income) Service	(39,843)	
Purchases/Transfers		
Miscellaneous	9,184	
Total Miscellaneous		(30,659)
Total Administrative Expense		667,651

Firefighters Retirement System

Investment Section





6075 Poplar Ave/
Suite 700
Memphis, TN 38119
901.761.8080
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Investment Overview

For the fiscal year ending June 30, 2006, the market value of the investment portfolio was approximately \$937 million representing an increase over the previous year-end of 14%. The investment return for the fiscal year was 12.3% using rate of return calculated by the system's actuary. Investments in equity securities represented 60% of the assets with 21.7% of these being in international securities. About 10.6% of portfolio was in U.S. equity holdings of U.S. companies having a market capitalization of less than \$10 Billion (usually referred to as Small to Mid-size companies) and the balance in large cap U.S. names sometimes referred to as "Blue Chip" stocks. Approximately 24% of the assets were held in U.S. fixed income securities with 3% in publicly traded REITs and 5% in Emerging Market Debt.

For the year, the asset allocation strategy added value in several areas. First the allocation to equity securities was maintained near the maximum allowed of 65% for most of the year. This added significant value as the U.S. equity market as measured by the S&P500 Index was up over 8.6% for the year and the core fixed income market represented by the Lehman Aggregate Bond market actually lost money, down .8%. The allocation to international equities was a positive contributor as our international stocks portfolio was up 29.1%. Our actively managed portfolio beat the market by a material amount as the Domestic Equity allocation returned 11.5% or almost 3% over the S&P500.

The core fixed income portfolio is providing liquidity as needed. Its allocation has been maintained near the bottom end of the policy range given that the return outlook was not very attractive. Again this year, our asset allocation decision to reduce investment grade fixed income in favor of the higher yielding asset strategies and REITs helped overcome the lower investment grade results. Our REIT allocation returned 24.6% versus the Lehman Aggregate Bond Index return of -.80%. Our high yield allocation was up 10.3%.

One of the truest and time-tested methods of managing risk in an investment portfolio is through diversification. The Board of Trustees adheres to this belief and therefore follows a discipline of diversification in investing the assets in the portfolio. In addition to the diversification outlined above, the assets are spread among twenty-seven (up from 12 last year) different professional money managers and one index fund to avoid any undue risk to a single management organization. We have reviewed the performance of each manager with the Board on a monthly basis and provided a more detailed market and peer group comparison on a quarterly basis. In addition, managers are asked to appear personally before the Board any time that their performance falters from expected norms or other issues of importance regarding their organizations require a review.

Looking forward, the Board is aware of the importance of asset allocation in achieving a desired return within acceptable risk guidelines. To this end, the Board has been expanding its commitments to strategies and asset classes that are not as market sensitive as equity and fixed income. The goal is to provide an attractive result if the economy does slow in reaction to the higher interest rate environment.

All in all, we believe that the portfolio provided an exceptional result this past fiscal year (+12.3%) versus its market benchmark (+4.8%) of 60% equities and 40% core fixed income. In our expert opinion, the portfolio is well positioned under current legislative restraints to produce the best results possible for the coming fiscal year.

Respectfully submitted:

Consulting Services Group, LLC
Investment Consultant to the Board

FIREFIGHTERS' RETIREMENT SYSTEM

Investment Policy

BASIC INVESTMENT PHILOSOPHY AND GOALS

The basic investment philosophy of the board is to invest and reinvest FRS assets to achieve the actuarially determined rate of return on investment assets to ensure the availability of funds needed to provide the mandated benefits to FRS participants, while exposing the system's assets to the least amount of risk possible consistent with the required return objective. A second and subordinate objective of the board is the preservation of the system's principal. In pursuit of this policy the board and its investment professionals shall:

- (1) Act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent institutional investor acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
- (2) Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered; and
- (3) Fully conform to the provisions of the statutes of the state of Louisiana, including all amendments thereto.
- (4) The investment portfolio will consist of fixed income securities and equities, including convertible securities.

It is the aim of the board that, each year, the overall investment portfolio will gain on a consistent basis a return equal to or greater than the annual actuarially assumed interest rate which is to be attained from interest, dividends, and net realized and unrealized capital gains.

Consistency is of supreme importance and it is to be achieved by an insistence upon high standards of quality and by a weighting of the portfolio among asset classes that reflects a judicious evaluation of the current and prospective rates of market return.

Consistency is of such importance, that the board may under prudent circumstances be willing to accept an investment performance ranking below the median of comparable retirement funds during rising securities markets in exchange for decidedly superior performance during falling or declining securities markets.

The board and its investment managers recognize that the goal of achieving or exceeding the actuarially assumed interest earnings rate may not be attained every year due to the dynamics of the securities markets. However, that goal should be attained over a full economic cycle (normally 3-5 years).

Total Fund Return. Over this cycle it is expected that the investment return realized on the total portfolio will exceed the return achieved by a composite average of 110% of the Standard and Poor's 500 Stock Index and 105% of the Lehman Aggregate Bond Index weighted in proportion to the system's target mix of equity and fixed income holdings. Additionally, it is expected that the total fund rate of return will exceed the median return for a comparable universe of retirement systems.

FIREFIGHTERS' RETIREMENT SYSTEM

Investment Policy (continued)

Individual Manager Return. Over the same cycle it is also expected that the performance rank of each manager will range between the first and forty-ninth percentile and will exceed the return (net of fees) of a comparable market index.

In furtherance thereof, the investment consultant shall provide monthly, quarterly, and end of fiscal-year reports summarizing the fund's performance as compared to these stated goals. Due to the limited availability of universe data, peer group performance comparisons are not required to be provided on a monthly basis.

A letter placing a manager on "watch" status shall automatically be issued to any manager whose performance is below his assigned index as measured in all periods up to three years, as shown in the monthly flash report published by the investment consultant and based on asset valuations furnished by the custodial bank. In addition thereto, any manager shall automatically be placed on "watch" status and a letter issued to that effect if either of the following conditions exists: (1) His performance is in the bottom quartile of his peer group for the prior three year period, or (2) His performance is below median compared to his peer group as measured for the prior five year period.

It is the policy of the board, provided all investment factors are equal and within the limits of prudence, that investments in Louisiana securities are encouraged as well as the use of Louisiana based investment managers.

PARAMETERS OF PORTFOLIO CONSTRUCTION

It is the policy of the board, subject to review and modification when deemed appropriate, to designate not less than 25% of the market value of the portfolio for fixed income investments, and not more than the maximum allowed by law of the market value of the portfolio for equity investments. Allowable ranges are as follows:

	RANGE
CASH	0-10%
BONDS	25-75%
STOCKS	30-65%
OTHER	0-25%

The FRS asset custodian shall agree to handle the short-term investments of the fund. Such investments must be permitted by the statutes of the state of Louisiana as applicable to public retirement funds and may include but are not necessarily limited to obligations of the U.S. Treasury, certificates of deposit, and commercial paper. Funds available for short-term investments may include proceeds from the sale of bonds or equities, interest and dividend income and new contributions to the fund. The FRS asset custodian shall agree to invest such funds within one business day of their availability.

It is the board's policy to allow managers to hold cash balances as a defensive posture against market declines, but managers will be evaluated on the performance of their total allocation,

FIREFIGHTERS' RETIREMENT SYSTEM

Investment Policy (continued)

including cash. Each manager shall provide the board with a monthly report summarizing its cash holdings, including but not limited to the duration of such holdings.

The investment managers have discretion to buy and sell securities within these parameters.

FIXED INCOME INVESTMENT POLICY

Notes and bonds will be utilized in this portfolio for income, price appreciation, and for their defensive characteristics.

It is imperative that the bond portfolio be of investment quality. The investment managers are therefore to purchase only bonds issued by the Federal Government and its agencies, mortgage-backed securities and corporate bonds rated "Investment Grade" (BAA or better) by a nationally recognized credit rating agency, unless the board of trustees approves an exception to that requirement and lists the exception in the appendix of this policy. The average quality of the portfolio must be at least "A". The purchase of high yield bonds is permitted if so stated in the investment guidelines for that manager. The purchase of preferred stocks is permitted provided the underlying equity is of adequate quality. Marketability is extremely important; thus, all bonds purchased must be issued with an outstanding amount of at least \$50 million par value.

The investment managers are to only purchase securities that are denominated in United States dollars, unless the board of trustees approves an exception to that requirement and lists the exception in the appendix of this policy.

No single holding other than a U.S. Government or a U.S. Government agency bond or note is to account for more than 5% of the market value of the system's total portfolio. Nor shall the bonds of any one issuer, other than the U.S. Government or its agencies, account for more than 10% of the market value of the system's total portfolio.

It is also expected that the bond portfolio will be subject to active management in the interest of achieving maximum total return within appropriate quality constraints. Specific guidelines will be established for each manager and shall be attached to this policy under Appendix A.

EQUITY INVESTMENT POLICY

The equity portfolio is to be managed on a total return basis; that is, equities will be selected on the basis of their anticipated return from the combination of dividends and market appreciation within a three to five year horizon.

The equity portfolio is to be constructed on four fundamental building blocks: (1) diversification, (2) market capitalization, (3) growth, and (4) value. The equity portfolio may be concentrated in securities that appear to represent particularly attractive value but the portfolio must be adequately diversified. No single equity holding is to account for more than 8% of the market value of any manager's total portfolio.

FIREFIGHTERS' RETIREMENT SYSTEM

Investment Policy (continued)

All domestic equities purchased by the fund shall be registered on a national securities exchange regulated under Title I of the Securities Exchange Act of 1934, or on the National Association of Securities Dealers Automated Quotation System. All international equities purchased by the managers for the system shall be common stock of publicly traded companies on recognized trading exchanges and be readily marketable securities offering potential for above-average growth.

Specific guidelines will be established for each manager and shall be attached to this policy under Appendix A.

The allocation objective of the FRS portfolio is to participate in all capitalization sectors of the equity market. To the extent practical, FRS shall:

- (1) Maintain equity holdings in large, middle, and small capitalization securities.
- (2) The core equity managers shall be selected in such a manner that the equity portfolio has reasonable exposure to the "growth" and "value" styles.

Investment managers shall vote all proxies on behalf of and in the best interest of FRS. Each investment manager shall promptly advise the FRS board regarding any issue that requires special consideration.

RESTRICTED TRANSACTIONS

Any security may be purchased by a manager, provided that the purchase is consistent with the underlying principles of the "prudent institutional investor" rule and, further provided, that the purchase is not prohibited by any provision of law or this policy. No derivative

securities may be used which would have the effect of leveraging the portfolio or exposing it to risks inconsistent with the spirit of the guidelines and the conservative investment philosophy of this fund. As such, any use of derivatives must be explained in the manager's investment guidelines under Appendix A hereof and must be limited to hedging strategies or to remain invested during periods of transition.

Short selling and the purchase of securities on margin are prohibited, unless expressly approved in the manager guidelines and attached in an Appendix to this policy.

COMMUNICATION

The board and its retained professionals recognize that frequent communication between the parties is a keystone to appropriate management of the fund.

Recognizing the dynamic nature of the capital markets, it is the obligation of the retained professionals to promptly report to the board any suggestions or alterations in their guidelines considered desirable for the achievement of satisfactory investment results. Revisions will be considered from time to time.

FIREFIGHTERS' RETIREMENT SYSTEM Investment Policy (continued)

The FRS board requires the following reports to be provided by the indicated professionals that are retained to assist the board in its investment process:

A. Investment Managers-

- (1) A timely notification/confirmation of all transactions shall be provided to the FRS custodial bank.
- (2) A monthly statement of asset values at cost and market.
- (3) A quarterly summary of performance with comparison to appropriate market performance indices.
- (4) A quarterly summary of performance with comparison to the objectives and goals outlined in their policy statements.
- (5) A quarterly summary of brokerage commissions paid on transactions made.
- (6) A quarterly summary of proxy votes made on the fund's behalf.
- (7) In addition to providing these written reports, the investment managers are obligated to make periodic personal appearances before the board.
- (8) Each manager is responsible for notifying the FRS board of any material change in personnel, investment strategy, or other pertinent information that effects or has the potential to effect the manager's performance.
- (9) Each investment manager shall agree, as a condition of being retained by FRS, to provide notice to the system whenever the manager is in violation of any provision of this policy. Notice shall be provided within forty-eight hours of any such violation or by the date of the next board meeting, whichever comes first. The manager shall also provide information concerning the manager's planned course of action to return to compliance with this policy and the timing of any such action.

B. Investment Consultant-

- (1) A quarterly summary of manager performance with comparison to the appropriate market and peer performance indices.
- (2) A quarterly summary of performance with comparison to the objectives and goals outlined in this policy statement.
- (3) A monthly executive summary of total fund and individual manager performance relative to the pertinent market indices and goals stated in this policy statement.
- (4) A report regarding portfolio diversification.

FIREFIGHTERS' RETIREMENT SYSTEM
Investment Policy (continued)

- (5) A report regarding the outlook for expected returns by asset class and any recommendations regarding asset allocation decisions.

C. Custodian-

- (1) A monthly statement reporting the value of all assets at cost and market.
- (2) A monthly summary of all portfolio transactions by manager.
- (3) A quarterly summary of brokerage commissions paid on transactions by manager.

TRUSTEES RESPONSIBILITY

Participation in the affairs of any public body demands a high level of personal integrity and conduct. This is especially true when wise utilization of the funds of others is involved. Members of the board must discharge their responsibilities without prejudice or favor, avoiding at all time any conduct which would create a conflict of interest.

Staff members shall carry out the duties and responsibilities delegated by the board in the best interest of members of FRS. No staff member shall engage in any activity in his official position or in a personal investment program which will in any way create a conflict of interest.

Trustees must possess the knowledge and skill necessary to discharge their responsibilities to the system and thus shall adhere to all continuing education requirements prescribed by law or this policy.

CONTROL PROCEDURES

All major liability assumptions regarding the number of plan participants, payroll, benefit levels, and actuarial assumptions will be subject to an annual review. This review will focus on an analysis of the major differences between the system's assumptions and actual experience.

The achievement of investment objectives will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives. It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the investment policy.

The board will require each manager to report monthly in a manner agreed upon by the board, staff, consultant, and manager.

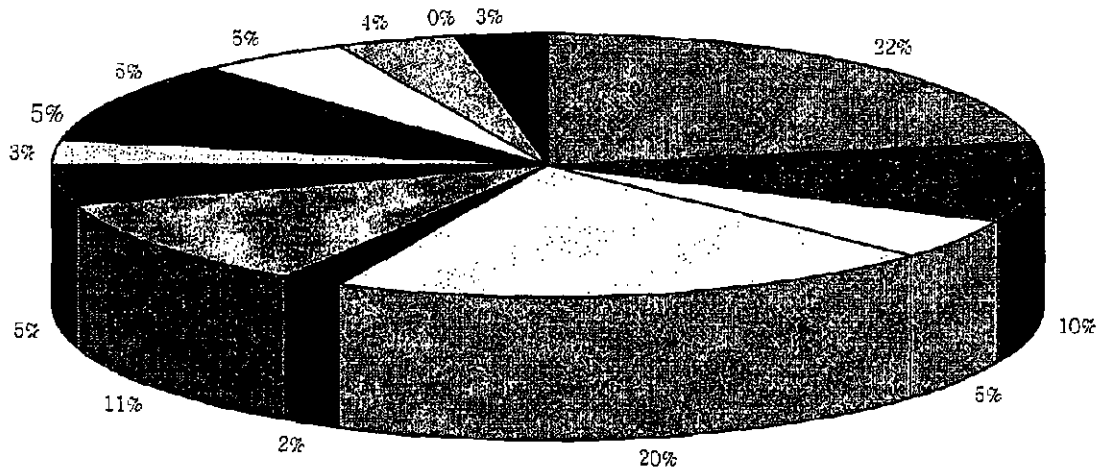
The board will meet at least annually, and preferably more frequently, with its investment managers and investment consultant. Additionally, with or without the investment managers, the board will review the investment results at least quarterly.

FIREFIGHTERS' RETIREMENT SYSTEM
Investment Policy (continued)

These reviews will focus on:

- (1) Manager adherence to the policy guidelines.
- (2) A comparison of manager results versus appropriate indices.
- (3) Manager results compared to a universe of peer managers.
- (4) Material changes in the manager organizations, such as investment philosophy, personnel changes, acquisitions, or losses of major accounts, etc.

**FIREFIIGHTERS' RETIREMENT SYSTEM
ASSET ALLOCATION SUMMARY
As of June 30, 2006**



Large Cap Domestic Equity	Mid Cap Domestic Equity
Small Cap Domestic Equity	Developed International Equity
Emerging Markets International Equity	Core Domestic Fixed Income
High Yield Domestic Fixed Income	REITS
Emerging Market International Fixed Income	Directional Hedge Funds
Non Directional Hedge Funds	Private Real Estate
Private Equity	Cash

FIREFIGHTERS' RETIREMENT SYSTEM

Investment Returns by Asset Class Compared to the Index			
As of June 30, 2006	One Year	Three Year	Five Year
FRS Large Cap Equity	10.6%	13.6%	4.0%
S&P 500	8.6%	11.2%	2.5%
FRS Small/Mid Cap Equity	12.9%	19.6%	15.5%
Russell 2500	13.5%	19.2%	9.7%
FRS International Equity	29.1%	26.0%	14.7%
MSCI EAFE Index	27.1%	24.4%	10.4%
FRS Core Fixed Income	-0.5%	2.5%	5.5%
FRS High Yield Fixed Income	9.4%	12.0%	12.6%
Lehman Brother Aggregate	-0.8%	2.1%	5.0%
FRS REITs	24.6%	29.8%	22.8%
NAREIT Index	19.0%	26.1%	19.4%
FRS Alternatives	9.4%	N/A*	N/A*
FRS Private Equity	N/A*	N/A*	N/A*

* Asset classes have not been held for more than one year.

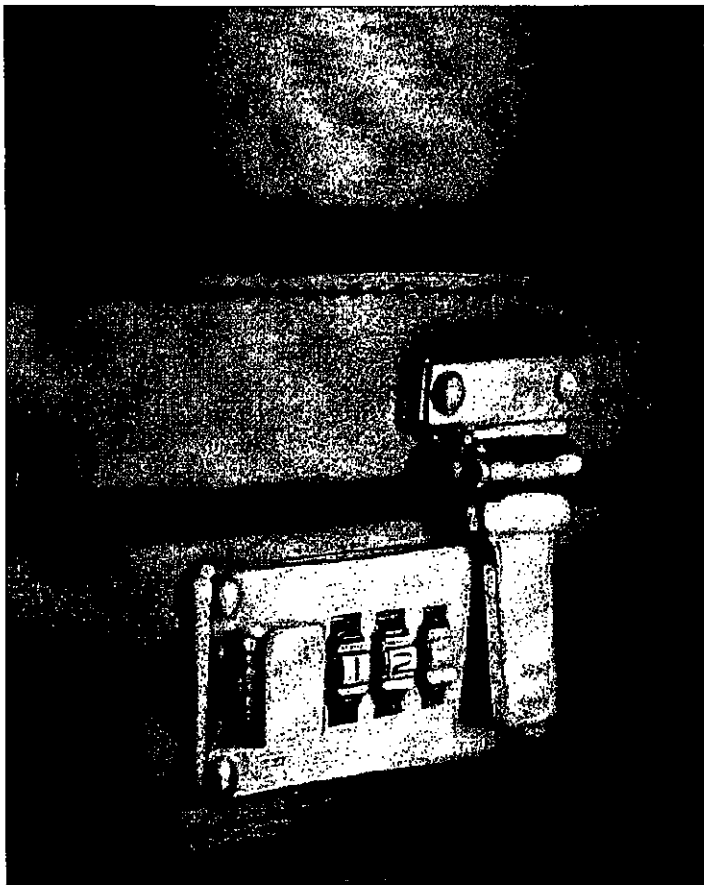
**FIREFIGHTERS' RETIREMENT SYSTEM
LIST OF LARGEST ASSETS HELD**

Top Twenty Equity Holdings at June 30, 2006			
<u>Asset Description</u>	<u>Shares</u>	<u>Cost Value</u>	<u>Market Value</u>
Exxon Mobil Corporation	91,700	4,285,621	\$5,625,795
Citigroup Incorporated	99,310	4,567,628	4,840,996
Hewlett Packard Company	144,000	3,206,778	4,561,920
Goldman Sachs Group Incorporated	27,800	3,909,203	4,181,954
Conocophillips	61,788	3,306,837	4,048,968
Marathon Oil Corporation	47,707	2,914,190	3,973,993
Valero Energy Corporation	59,400	1,026,877	3,951,288
General Electric Company	112,860	4,091,891	3,719,866
Occidental Pete Corporation	36,200	2,513,145	3,712,310
Bank of America Corporation	76,560	3,224,476	3,682,536
Altria Group Incorporated	48,300	2,754,698	3,546,669
Proctor and Gamble Company	62,800	3,291,821	3,491,680
Motorola Incorporated	168,600	2,350,745	3,397,290
Texas Instruments	111,400	3,604,567	3,374,306
Hess Corporation	62,100	1,781,695	3,281,985
Aetna Incorporated	79,600	1,507,949	3,178,428
Oracle Corporation	215,800	2,940,005	3,126,942
Metlife Incorporated	60,000	2,326,316	3,072,600
Johnson and Johnson	48,979	2,782,120	2,934,822
JC Penney Incorporated	42,300	1,224,163	2,855,673

**FIREFIGHTERS' RETIREMENT SYSTEM
LIST OF LARGEST ASSETS HELD**

Top Twenty Fixed Income Holdings at June 30, 2006				
Asset Description	Coupon Rate	Maturity Date	Cost	Fair Value
FNMA REMIC 99-M1-B	6.29%	02/25/2029	\$4,523,383	\$4,955,730
US Treasury Notes	4.50%	11/18/2015	3,512,763	3,524,250
FNMA REMIC 03-W18-1A	5.37%	08/28/2033	3,020,625	2,931,960
SBA 04-20-H	5.17%	08/01/2024	2,806,754	2,705,879
FNMA REMIC 03-W48-1A1	6.50%	07/25/2033	2,422,662	2,306,394
IBM Corp.	7.00%	10/30/2025	1,547,985	1,630,305
SBA 03-20L-1	4.89%	12/01/2023	1,703,996	1,617,195
GE Capital Corp.	6.00%	06/15/2012	1,514,145	1,517,238
Target Corp.	5.87%	03/01/2012	1,582,815	1,515,525
FHLMC MULTI T-54-2A	6.50%	02/25/2043	1,586,195	1,514,580
Marathon Oil Corporation	6.12%	03/15/2012	1,553,345	1,513,590
GATX Financial Corp.	5.12%	04/15/2010	1,501,485	1,451,940
Kraft Foods Inc.	5.25%	10/01/2013	1,498,185	1,432,470
Dominion Res Inc.	5.15%	07/15/2015	1,501,965	1,378,815
Valero Energy Corp.	4.75%	06/15/2013	1,517,100	1,377,510
FNMA REMIC 05-W1-1A1	6.00%	10/25/2044	1,369,728	1,337,082
SBA 04-20D-1	4.77%	04/01/2024	1,398,566	1,315,086
Household	4.75%	05/15/2009	1,303,211	1,269,346
Tobacco Settlement	6.75%	06/01/2039	1,009,129	1,227,710
Bank of America Corp.	7.40%	01/15/2011	1,091,885	1,064,020
Bank of America 05-D-A1	4.11%	05/25/2035	1,090,838	1,058,536

Firefighters Retirement System



Actuarial Section

G. S. CURRAN & COMPANY, LTD.

Actuarial Services

10555 North Glenstone Place • Baton Rouge, Louisiana 70810 • (225)769-4825

Gary S. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

November 21, 2006

Board of Trustees
Firefighters' Retirement System
3100 Brentwood Drive
Baton Rouge, LA 70809

Ladies and Gentlemen:

We are pleased to present our report on the actuarial valuation of the Firefighters' Retirement System for the fiscal year ending June 30, 2006. Our report is based on the actuarial assumptions specified and relies on the data supplied by the system's administrator and accountants. This report was prepared at the request of the Board of Trustees of the Firefighters' Retirement System. The primary purposes of the report are to determine the actuarially required contribution for the retirement system for the fiscal year ending June 30, 2007, to recommend the net direct employer contribution rate for fiscal 2008, and to provide information required for the system's financial statements.

This report has been prepared in accordance with generally accepted actuarial principles and practices, and to the best of our knowledge and belief fairly reflects the actuarial present values and costs stated herein.

Sincerely,

G. S. CURRAN & COMPANY, LTD.

By: _____
Gary Curran, F.C.A., A.S.A.

FIREFIGHTERS' RETIREMENT SYSTEM

Summary of Assumptions

In determining actuarial costs, certain assumptions must be made regarding future experience under the plan. These assumptions include the rate of investment return, mortality of plan members, rates of salary increase, rates of retirement, rates of termination, rates of disability, and various other factors that have an impact on the cost of the plan. To the extent the future experience varies from the assumptions selected for valuation, future costs will be either higher or lower than anticipated. The following chart illustrates the effect of emerging experience on the plan.

<u>Factor</u>	<u>Increase in Factor Results In</u>
Investment Earnings Rate	Decrease in Cost
Annual Rate of Salary Increase	Increase in Cost
Rates of Retirement	Increase in Cost
Rates of Termination	Decrease in Cost
Rates of Disability	Increase in Cost
Rates of Mortality	Decrease in Cost

ACTUARIAL COST METHOD:

Individual entry age normal with allocation of cost based on earnings. Entry and attained ages calculated on age near birthday basis.

VALUATION INTEREST RATE:

7.5%

ACTUARIAL ASSET VALUES:

Asset values are based on data furnished by the system's certified public accountants. Merger notes are valued on an amortized basis. Invested assets are valued at market value adjusted to defer one-fifth of all excess returns accrued during the fiscal year.

ANNUITANT MORTALITY:

1994 Uninsured pensioner mortality table utilized for pre-retirement and post-retirement table used for pre-retirement and post-retirement mortality.

RETIREE COST OF LIVING INCREASES:

The present value of future retirement benefits is based on benefits currently being paid by the system and includes previously granted COLAs. The present values do not include provisions for potential future increases not yet authorized by the board of trustees.

FIREFIGHTERS' RETIREMENT SYSTEM
Summary of Assumptions (continued)

ANNUAL SALARY INCREASE RATE:

Salary increases include 3.25% inflation and merit increases. The gross rates including inflation and merit increases are as follows:

Years of Service	Salary Growth Rate
1—2	14.7%
3—14	6.3%
15 & Over	5.3%

RETIREMENT RATES:

The table of these rates is included in the actuarial valuation report. These rates apply only to those individuals eligible to retire.

DROP ENTRY RATES:

The table of these rates is included in the actuarial valuation report. These rates apply only to those individuals eligible to participate.

DROP PARTICIPATION PERIOD:

All DROP participants are assumed to participate for 3 years and retire at the end of this participation period.

RETIREMENT RATES FOR ACTIVE FORMER DROP PARTICIPANTS:

Retirement rates for active former DROP participants are as follows:

Ages	Retirement Rates
74 & Under	0.25
75 & Over	1.00

DISABILITY RATES:

70% of the disability rates used for the 21st valuation of the Railroad Retirement System for individuals with 10-19 years of service. The table of these rates is included in the actuarial valuation report. 20% of total disabilities are assumed to be in the line of duty.

FIREFIGHTERS' RETIREMENT SYSTEM
Summary of Assumptions (continued)

WITHDRAWAL RATES:

The rates of withdrawal are applied based upon completed years of service according to the following table:

Service	Factor	Service	Factor
<1	0.100	7	0.020
1	0.060	8	0.020
2	0.060	9	0.020
3	0.060	10	0.020
4	0.035	11	0.020
5	0.035	>11	0.010
6	0.035		

Note: The withdrawal rate for individuals eligible to retire is assumed to be zero.

MARRIAGE STATISTICS:

80% of the members are assumed to be married; husbands are assumed to be three years older than wives.

SERVICE RELATED DEATHS:

20% of Total Deaths

FAMILY STATISTICS:

Assumptions utilized in determining the costs of various survivor benefits as listed below, are derived from information provided in the 2000 U.S. Census:

Age	% with Children	Number of Children	Average Age
25	62%	1.7	6
35	82%	2.1	10
45	66%	1.8	13
55	19%	1.4	15
65	2%	1.4	18

DISABLED LIVES MORTALITY:

RP-2000 Disabled Lives Mortality Tables for Males and Females

VESTING ELECTING PERCENTAGE:

80% of those vested elect deferred benefits in lieu of contribution refunds.

**FIREFIGHTERS' RETIREMENT SYSTEM
Membership Data**

Active Member Data
At June 30, 2006

Fiscal Year	Number	Annual Payroll	Annual Ave Pay	% Increase in Average Pay
2006	3,534	140,178,740	39,665	4.3%
2005	3,532	134,313,739	38,028	1.8%
2004	3,431	128,144,746	37,349	3.7%
2003	3,360	121,012,780	36,016	4.6%
2002	3,322	114,422,827	34,444	4.2%
2001	3,257	107,667,223	33,057	1.9%

Retiree and Beneficiary Data
At June 30, 2006

Fiscal Year	# of Annuitants	Additions	Deletions	% Change In Membership	Annual Annuities	% Change in Annuities
2006	1,477	71	28	3.0%	39,649,619	8.6%
2005	1,434	79	24	4.0%	36,510,489	7.1%
2004	1,379	86	22	4.9%	34,076,169	8.0%
2003	1,315	70	33	2.9%	31,542,638	6.5%
2002	1,278	70	22	3.9%	29,610,698	6.0%
2001	1,230	100	25	6.5%	27,934,986	7.7%

FIREFIGHTERS' RETIREMENT SYSTEM
Reconciliation of Unfunded Accrued Liability
As of June 30, 2006

Prior Year Unfunded Accrued Liability		\$193,661,707
Interest on Unfunded Accrued Liability	\$14,524,628	
Normal Cost for Prior Year	32,758,986	
Interest on Normal Cost	2,456,924	
Normal Cost for Merged Systems with Accrued Interest	0	
Administrative Expenses	707,493	
Interest on Expenses	26,051	
Total Increases to Unfunded Accrued Liability		\$50,474,082
Required Contributions for Prior Year with Interest	\$53,473,209	
Contribution Excess (Shortfall) with Accrued Interest	3,044,473	
Cost of Living Adjustment Gains (Losses)	(12,495,729)	
Assumption & Method Change Gains (Losses)	(7,880,410)	
Investment Gains (Losses)	30,569,026	
Liability Experience Gains (Losses)	(525,295)	
Total Decreases to Unfunded Accrued Liability		\$66,185,274
CURRENT YEAR UNFUNDED ACCRUED LIABILITY		\$177,950,515

FIREFIGHTERS' RETIREMENT SYSTEM

Changes in Plan Provisions

Act 492 provides for compliance with the Internal Revenue Code. The term "actuarial assumptions" is defined to mean the calculations used by an actuary engaged annually by the board to calculate the amounts necessary to fund the members' annuities. The definition of "actuarial equivalent" is amended to mean the amount required to fund the member's annuity based upon the calculations of the actuary on the basis of mortality tables approved by the board of trustees and regular interest at a rate fixed by the board of trustees. The terms "years of service" and "years of creditable service" are defined to mean the number of twelve-month periods a member has which are creditable toward receiving retirement benefits from the retirement system. The term "years of membership service" is defined to mean the number of twelve-month periods a member has served while a member of the retirement system. By virtue of this act, no individual under the age of eighteen will be allowed to become a member of this retirement system. This act provides for the acceptance of direct rollovers from other qualified retirement plans for the purchase of service credits at the accrual rate established by the system actuary, subject to the limitations of Section 415(n) of the Internal Revenue Code of 1986, as amended. This act provides for R.S. 11:2271, which outlines the tax qualification requirements of the Internal Revenue Code.

Act 507 provides for interest on the repayment of contributions to be calculated at the system's then currently assumed actuarial valuation rate of interest, compounded annually.

Act 562 prohibits individuals who are receiving disability retirement benefits from a public retirement system from becoming members of the Firefighters' Retirement System.

Act 566 permits individuals who become eligible to participate in the Deferred Retirement Option Plan (DROP) to make an irrevocable written election to waive their rights as set forth in Article X, Section 29 of the Louisiana Constitution as it relates to the interest earned by their DROP account. After these individuals terminate their employment in this system, their DROP account balance will earn interest at a rate equal to the percentage rate of return of the system's investment portfolio, less the cost of merger notes as certified by the actuary in his yearly valuation report, less the cost of administering the DROP to be determined annually by the board of trustees. These individuals will be required to expressly acknowledge that their account will be debited in the event the system's investment portfolio experiences a negative earnings rate.

Act 588 extends the deadline whereby retired members or Deferred Retirement Option Plan participants can convert from a service retirement to a service connected disability retirement from July 1, 2006 to July 1, 2011. The requirement that the Public Retirement Systems' Actuarial Committee publish reports as part of the actuarial valuations of the system on the impact of all such conversions occurring between July 1, 2001 and July 1, 2006 is also extended to all such conversions occurring between July 1, 2006 and July 1, 2011.

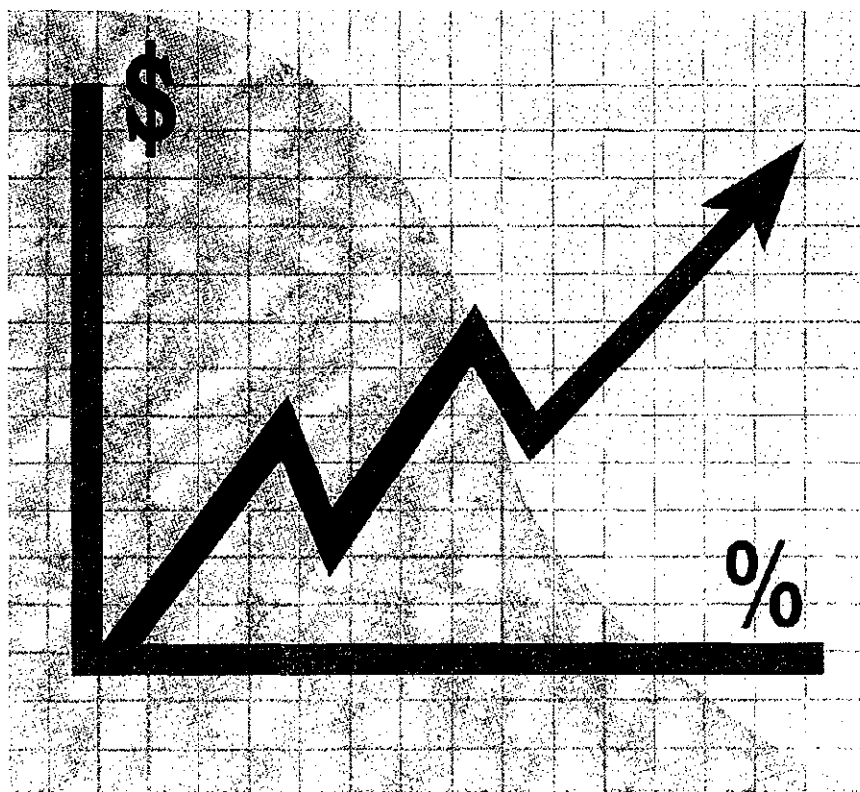
Act 678 provides that any employee of a state or statewide retirement system who has not retired, whose participation in the Deferred Retirement Option Plan of that system was interrupted or ceased upon their being terminated due to a reduction-in-force necessitated by Hurricane Katrina or Hurricane Rita or both, will have the time period applicable to their plan participation adjusted upon their reemployment and resumption of membership in the retirement system to which they belonged before being terminated. However, in no case will this statute apply to anyone who becomes reemployed more than one year after being furloughed or terminated, whichever occurs first, or to anyone reemployed on or after December 31, 2006.

FIREFIGHTERS' RETIREMENT SYSTEM
Changes in Plan Provisions (continued)

Act 682 limits who an Option 4 benefit can be paid to, to the member, the member's spouse, the member's permanently mentally or physically disabled child or children, or the member's dependent minor child or children.

Firefighters Retirement System

Statistical Section



FIREFIGHTERS' RETIREMENT SYSTEM
Schedules of Revenue & Expense by Source and Type

Revenue by Source

<u>Fiscal Year</u>	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>IPTE Allocation</u>	<u>Net Investment Earnings</u>	<u>Other Operating Revenues</u>	<u>Total</u>
2006	\$11,100,322	\$25,287,368	\$18,197,358	\$104,278,816	\$491,126	\$159,354,990
2005	10,750,246	32,898,204	17,096,085	78,546,820	493,191	139,784,546
2004	9,940,375	27,650,433	16,537,682	73,194,397	739,028	128,061,915
2003	9,980,305	13,200,282	23,704,649	32,785,925	1,172,708	80,843,869
2002	8,933,430	10,044,357	15,115,035	(22,824,379)	2,693,948	13,962,391
2001	10,033,951	10,938,640	19,865,996	(15,380,479)	2,709,094	28,167,202

Expenses by Type

<u>Fiscal Year</u>	<u>Annuity Benefits</u>	<u>Disability Benefits</u>	<u>Refunds & Transfers</u>	<u>Administrative Expenses</u>	<u>Total</u>
2006	\$39,509,987	\$2,982,855	\$889,230	\$667,651	\$44,049,693
2005	39,371,442	2,694,199	907,771	585,997	43,559,409
2004	36,281,148	2,259,873	1,067,755	749,148	40,357,924
2003	33,849,503	1,871,210	797,766	615,165	37,133,644
2002	32,159,698	1,535,340	813,332	523,256	35,031,626
2001	29,198,450	1,426,822	795,741	457,883	31,878,896

FIREFIGHTERS' RETIREMENT SYSTEM

Membership Census

<u>Fiscal Year</u>	<u>Actives</u>	<u>Retirees & Survivors</u>	<u>DROP Participants</u>	<u>Terminated Due a Benefit</u>	<u>Terminated Due a Refund</u>
2006	3,534	1,477	111	52	249
2005	3,532	1,434	103	45	189
2004	3,431	1,379	114	42	181
2003	3,360	1,315	120	36	143
2002	3,322	1,278	145	30	133
2001	3,257	1,230	156	25	118

FIREFIGHTERS' RETIREMENT SYSTEM
Schedule of Participating Employers

City of Abbeville
Ascension Parish Fire District #3
City of Alexandria
City of Baldwin
City of Baker
City of Bastrop
City of Bayou Cane
Beauregard Parish Fire Protection District #1
Benton Fire Protection District #4
Town of Berwick
City of Bogalusa
City of Bossier City
Town of Brusly
Caddo Parish Fire Protection District #1
Caddo Parish Fire Protection District #2
Caddo Parish Fire Protection District #3
Caddo Parish Fire Protection District #4
Caddo Parish Fire Protection District #5
Caddo Parish Fire Protection District #6
Caddo Parish Fire Protection District #8
Calcasieu Parish Consolidated Government
Central Fire Protection District #4
City of Covington
City of Crowley
City of Denham Springs
City of Deridder
Desoto Fire Protection District #8
Fire Protection District #6
City of Donaldsonville
East Central Bossier Fire Protection District #1
City of Eunice
Town of Farmerville
City of Franklin
City of Franklinton
Grant Parish Fire Protection District #5
City of Gonzales
Town of Gueydan
City of Hammond

City of Harahan
City of Haughton
Iberia Parish Fire Protection District #1
Jefferson Parish Fire Protection District
Jefferson Davis Parish Fire Protection District #2
City of Jennings
City of Jonesboro
City of Kaplan
City of Kenner
Town of Kentwood
City of Lafayette
City of Lake Charles
City of Leesville
Lincoln Fire Protection District #1
City of Marksville
City of Minden
City of Monroe
Montegut Fire Protection District #6
City of Morgan City
City of Natchitoches
Natchitoches Fire Protection District #8
City of New Iberia
North Bienville Parish Fire Protection District
City of Opelousas
Ouachita Parish
City of Pineville
City of Plaquemine
City of Ponchatoula
City of Port Allen
Rapides Parish Fire Protection District #2
City of Rayville
City of Ruston
City of Shreveport
St Bernard Parish Fire Protection District
City of St Gabriel
St George Fire Protection District
St John the Baptist Parish Fire Protection District
St Landry Parish Fire Protection District #1

FIREFIGHTERS' RETIREMENT SYSTEM
Schedule of Participating Employers (continued)

St Landry Parish Fire Protection District #2
St Landry Parish Fire Protection District #3
St Mary Parish Fire Protection District #3
St Tammany Fire Protection District #1
St Tammany Fire Protection District #2
St Tammany Fire Protection District #3
St Tammany Parish Fire Protection District #4
St Tammany Parish Fire Protection District #5
St Tammany Fire Protection District #8
St Tammany Parish Fire Protection District #12
City of Sulphur
City of Tallulah
Tangipahoa Parish Fire Protection District #2
Tensas Parish Fire Protection District #1
Terrebonne Parish Consolidated Government
Terrebonne Parish Fire Protection District #4A
Terrebonne Parish Fire Protection District #5
Terrebonne Parish Fire Protection District #6
Terrebonne Parish Fire Protection District #7
Terrebonne Parish Fire Protection District #9
Terrebonne Parish Fire Protection District # 10
Vermillion Parish Fire Protection District #7
City of Vidalia
City of Ville Platte
Washington Parish Fire Protection District
West Baton Rouge Parish Fire Protection District
#6
West Feliciana Fire Protection District #1
City of Westlake
City of West Monroe
City of Winnfield
City of Winnsboro
City of Zachary



Postlethwaite & Netterville

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November 30, 2006

Board of Trustees
Firefighters' Retirement System
Baton Rouge, Louisiana

We have audited the financial statements of the Firefighters Retirement System for the year ended June 30, 2006 and have issued our report thereon. As part of our examination, we made a study and evaluation of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his audit of the financial statements.

The objective of internal control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

No matter how good a system, there are inherent limitations that should be recognized in considering the potential effectiveness of internal accounting. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the degree of compliance with the procedures may deteriorate. We say this simply to suggest that any system needs to be constantly reviewed and improved where necessary.

During the course of our audit, we made the following observation which we feel should be brought to your attention. Concerning this matter, we offer the following comments and recommendations:

Valuation of Alternative Investments

Condition: During Fiscal, 2006, the System at the recommendation of the investment committee, began to diversify its portfolio by investing in alternative investments which are also referred as hard to value assets. The market value of these assets are not based upon quoted market values but on amounts reported by internal amounts reported by investment managers as well as annual audits conducted by external audit firms.

Condition (continued):

It should be noted that it is management's responsibility to obtain and substantiate market values as reported by the custodian. During the course of the current year audit some funds reported that annual audits of the funds were not completed due to the short period of time funds had been in operation. In many of these cases, amounts were invested at or near fiscal year end and the assumption that the cost of the investment approximates the value was deemed appropriate.

Recommendation:

To ensure that the accounting records and financial reports to the Board are accurate on an ongoing basis, management of the system should seek to obtain both annual audits performed by investment funds as well as internally prepared information prepared on an interim basis. Management of the system should use this information provided to calculate both the fair market value of the fund as well as unrealized and realized gains and losses.

We believe that the implementation of these recommendations will provide the System with a stronger system of internal accounting control. We appreciate the cooperation received from your personnel during the audit process. This report is intended solely for the information and use of the board of directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville



FIREFIIGHTERS RETIREMENT SYSTEM

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



December 18, 2006

Postlethwaite & Netterville
8550 United Plaza Blvd.
Baton Rouge, LA 70809

Re: Management Letter Response; Audit Year 2005-2006

Ladies and Gentlemen:

In response to your management letter dated November 30, 2006, we offer the following response. The recommendation for obtaining both annual audits performed by alternative investment funds as well as internally prepared information prepared on an interim basis has been taken under advisement by the board of trustees. FRS began diversifying its portfolio in July 2005 with allocations to alternative asset classes. For the current year, FRS hired 17 managers in the alternative area with 12 of these being hired during the last half of the fiscal year.

As our alternative asset class continues to develop, we will continue to expand our efforts to obtain audited financial statements as well as documentation of internal controls to verify the valuations assigned by our alternative investment managers. In addition, we will continue to work to ensure accurate reporting of investment balances and reliability of valuation methodologies. We appreciate you bringing these matters to our attention.

Very truly yours,

A handwritten signature in black ink, appearing to read "Steven Stockstill".

Steven Stockstill
Executive Director

A handwritten signature in black ink, appearing to read "Kelli Chandler".

Kelli Chandler
Controller/Administrator