

## R E P O R T

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

DECEMBER 31, 2004

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.

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

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## INDEPENDENT AUDITOR'S REPORT

June 7, 2005

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

We have audited the consolidated statements of plan net assets of the Firefighters' Pension and Relief Fund of the City of New Orleans New System and Old System and subsidiaries, a component unit of the City of New Orleans, as of December 31, 2004, and the related consolidated statements of changes in plan net assets for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Greentech Panels, L.L.C., an 80.525% owned subsidiary, which statements reflect total assets of \$27,110,186 as of December 31, 2004 and total revenues of \$296,523 for the year then ended. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Greentech Panels, L.L.C., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above, present fairly in all material respects, the financial position of the Firefighters' Pension and Relief Fund of the City of New Orleans New System and Old System and subsidiaries as of December 31, 2004, and the results of operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The other auditor's report on the 2004 financial statements of Greentech Panels, L.L.C. included an explanatory paragraph describing conditions that raised substantial doubt about its ability to continue as a going concern, as discussed in Note 22 to the 2004 financial statements.

We have audited the financial statements of the Firefighters' Pension and Relief Fund New System and Old System and subsidiaries for the year ending December 31, 2004 and issued our unqualified opinion on such financial statements. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required statistical information on pages 39 – 41 and the supplemental schedules on pages 35 – 38 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such required statistical information for the years ending December 31, 1999 – 2004 and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted primarily of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2005 on our consideration of the Firefighters' Pension and Relief Fund of the City of New Orleans and subsidiaries' internal control over financial reporting and our tests of its compliance with laws, regulations and contracts. 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.

*Duplantier, Hrapmann, Hogan & Maher, LLP*

**FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF DECEMBER 31, 2004**

The following is management's discussion and analysis of the financial performance of the Firefighters' Pension and Relief Fund of the City of New Orleans (NOFF). It is presented as a narrative overview and analysis for purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the current year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements, which are comprised of three components:

- Statements of plan net assets
- Statements of changes in plan net assets, and
- Notes to the financial statements

This report also contains required supplemental information in addition to the basic financial statements themselves.

The statements of plan net assets report the pension fund's assets, liabilities, and resultant net assets held in trust for pension benefits. They disclose the financial position of the Fund as of December 31, 2004 and 2003.

The statements of changes in plan net assets report the results of the pension fund's operations during the year disclosing the additions to and deductions from the plan net assets. They support the change that has occurred to the prior year's net asset value on the statements of plan net assets.

*Required supplementary information consists of two schedules and related notes concerning the funded status of the Fund.*

Supporting schedules include information on changes in reserve balances and administrative expenses.

**NOFF FINANCIAL ANALYSIS**

NOFF provides retirement allowances and other benefits for firefighters of the City of New Orleans. The Fund consists of two systems, the Old System and the New System. The Old System includes firefighters employed before January 1, 1968. The New System covers firefighters who were employed after December 31, 1967 or Old System members who have elected coverage under the New System.

**FIREFIGHTERS' PENSION AND RELIEF FUND  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF DECEMBER 31, 2004**

**Statements of Plan Net Assets  
December 31, 2004 and 2003**

|  | <u>New System</u>     |                       | <u>Old System</u>     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | <u>2004</u>           | <u>2003</u>           | <u>2004</u>           | <u>2003</u>           |
| Cash   | \$ 169,913            | \$ 341,884            | \$ 5,929,977          | \$ 3,562,169          |
| Receivables  | 8,341,604             | 4,526,438             | 86,720,618            | 98,252,071            |
| Investments  | 217,721,934           | 192,670,996           | 9,162,404             | 8,181,330             |
| Property and equipment                                   | --                    | --                    | 38,979                | 69,369                |
| <b>Total assets</b>                                      | <b>226,233,451</b>    | <b>197,539,318</b>    | <b>101,851,978</b>    | <b>110,064,939</b>    |
| Current liabilities                                      | 7,344,464             | 11,436,122            | 69,105                | 104,016               |
| Long-term liabilities                                    | 17,620,347            | --                    | --                    | --                    |
| <b>Total liabilities</b>                                 | <b>24,964,811</b>     | <b>11,436,122</b>     | <b>69,105</b>         | <b>104,016</b>        |
| Minority interest  | 255,480               | --                    | --                    | --                    |
| <b>Net assets held in trust<br/>for pension benefits</b> | <b>\$ 201,013,160</b> | <b>\$ 186,103,196</b> | <b>\$ 101,782,873</b> | <b>\$ 109,960,923</b> |

**Statements of Changes in Plan Net Assets  
For the Years Ended December 31, 2004 and 2003**

|   | <u>New System</u>    |                      | <u>Old System</u>     |                     |
|---|----------------------|----------------------|-----------------------|---------------------|
|   | <u>2004</u>          | <u>2003</u>          | <u>2004</u>           | <u>2003</u>         |
| <b>Additions:</b>                             |                      |                      |                       |                     |
| Contributions                                 | \$ 9,074,239         | \$ 6,170,081         | \$ 605,102            | \$ 1,131,948        |
| Investment gain                               | 18,789,848           | 23,615,273           | 9,325,755             | 18,380,118          |
| <b>Total additions</b>                        | <b>27,864,087</b>    | <b>29,785,354</b>    | <b>9,930,857</b>      | <b>19,512,066</b>   |
| <b>Total deductions</b>                       | <b>11,890,538</b>    | <b>11,265,349</b>    | <b>18,108,907</b>     | <b>18,323,852</b>   |
| <b>Increase (decrease) in plan net assets</b> | <b>\$ 15,973,549</b> | <b>\$ 18,520,005</b> | <b>\$ (8,178,050)</b> | <b>\$ 1,188,214</b> |

**FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF DECEMBER 31, 2004**

**Additions to Plan Net Assets**

Additions to NOFF plan net assets were derived from member and employer contributions, state fire insurance rebates, and investment income. The increase in City appropriations is due to this amount being actuarially determined. The decline in investment income is primarily related to the poorer performance of some of NOFF's investments during 2004 as compared to 2003.

|                       | <u>New System</u>    |                      |                          | <u>Old System</u>   |                      |                          |
|-----------------------|----------------------|----------------------|--------------------------|---------------------|----------------------|--------------------------|
|                       | <u>2004</u>          | <u>2003</u>          | <u>Percentage Change</u> | <u>2004</u>         | <u>2003</u>          | <u>Percentage Change</u> |
| Member contributions  | \$ 1,019,897         | \$ 993,560           | 3%                       | \$ --               | \$ --                | --                       |
| City appropriations   | 7,449,240            | 5,176,521            | 44%                      | --                  | --                   | --                       |
| Fire insurance rebate | 605,102              | --                   | N/A                      | 605,102             | 1,131,948            | -47%                     |
| Net investment gain   | <u>18,789,848</u>    | <u>23,615,273</u>    | -20%                     | <u>9,325,755</u>    | <u>18,380,118</u>    | -49%                     |
|                       | <u>\$ 27,864,087</u> | <u>\$ 29,785,354</u> |                          | <u>\$ 9,930,857</u> | <u>\$ 19,512,066</u> |                          |

**Deductions from Plan Net Assets**

Deductions from plan net assets include mainly retirement, death and survivor benefits, PLOP and DROP withdrawals and administrative expenses. Deductions from plan net assets increased by \$625,189 in the New System in 2004, primarily due to an increase in retirement benefits. Deductions from plan net assets decreased by \$214,945 in the Old System, primarily as a result of a decrease in IRS penalties and interest in 2004.

|                           | <u>New System</u>    |                      |                          | <u>Old System</u>    |                      |                          |
|---------------------------|----------------------|----------------------|--------------------------|----------------------|----------------------|--------------------------|
|                           | <u>2004</u>          | <u>2003</u>          | <u>Percentage Change</u> | <u>2004</u>          | <u>2003</u>          | <u>Percentage Change</u> |
| Retirement benefits       | \$ 9,339,481         | \$ 8,548,113         | 9%                       | \$ 17,300,621        | \$ 17,492,937        | -1%                      |
| Refund of contributions   | 33,894               | 21,346               | 59%                      | --                   | --                   | --                       |
| Death benefits            | 9,000                | 15,000               | -40%                     | 69,000               | 57,000               | 21%                      |
| Administrative expenses   | 367,781              | 325,982              | 13%                      | 505,337              | 496,654              | 2%                       |
| DROP withdrawal           | 1,001,946            | 874,536              | 15%                      | 143,547              | 83,270               | 72%                      |
| PLOP withdrawal           | 1,022,801            | 1,456,761            | -30%                     | 90,402               | 20,752               | 336%                     |
| IRS penalties & interest  | --                   | --                   | --                       | --                   | 173,239              | -100%                    |
| Transfer to other systems | <u>115,635</u>       | <u>23,611</u>        | 390%                     | <u>--</u>            | <u>--</u>            | --                       |
|                           | <u>\$ 11,890,538</u> | <u>\$ 11,265,349</u> |                          | <u>\$ 18,108,907</u> | <u>\$ 18,323,852</u> |                          |

**FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF DECEMBER 31, 2004**

**Investments**

NOFF is responsible for the prudent management of funds held in trust for the exclusive benefit of our members' pension benefits. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Total investments at December 31, 2004 amounted to \$217,721,934 and \$9,162,404 for the New and Old Systems, respectively, as compared to \$192,670,996 and \$8,181,330 at December 31, 2003. Total investments increased approximately thirteen percent and twelve percent in the New and Old Systems, respectively. The major contributing factor to the increase in the New System is the consolidation of the assets of Greentech Panels, LLC and Lakewood Restoration Partners, LP in these financial statements. The increase in the Old System is the result of increased gains on futures trading as well as the transfer of the proceeds of the State insurance rebate into the investment account.

**REQUESTS FOR INFORMATION**

Questions concerning any of the information provided or requests for additional financial information should be addressed to Richard J. Hampton, Jr., CEO/Secretary-Treasurer of the Firefighters' Pension and Relief Fund of the City of New Orleans, 329 S. Dorgenois, New Orleans, LA 70119.



**FIREFIGHTERS' PENSION AND RELIEF FUND**

DECEMBER 31, 2004

|  | New System       |                  |            | Old System       |                  |             |
|--|------------------|------------------|------------|------------------|------------------|-------------|
|  | Regular Pensions | Restricted DROIP | Total      | Regular Pensions | Restricted DROIP | Total       |
| \$   | 155,675          | 9,776            | 169,913    | 4,358,452        | 1,225,680        | 5,929,977   |
|  | -                | -                | -          | 70,414           | -                | 70,414      |
| Cash (Note 5)  | 3,530,455        | 221,702          | 3,853,346  | 5,580            | 1,569            | 7,592       |
| Prepaid insurance Receivables.   | 2,942,616        | 184,788          | 3,211,745  | 826              | 233              | 1,125       |
| Accrued investment income  | -                | -                | -          | 564              | -                | 564         |
| Investment receivable  | 34,973           | -                | 34,973     | -                | -                | -           |
| Due from other system  | 1,241,540        | -                | 1,241,540  | -                | -                | -           |
| Member contributions receivable  | -                | -                | -          | -                | -                | -           |
| City appropriations receivable   | -                | -                | -          | -                | -                | -           |
| Contributions receivable (Note 3)  | -                | -                | -          | -                | -                | -           |
| Total receivables  | 7,749,584        | 406,490          | 8,341,604  | 86,640,923       | 1,802            | 86,640,923  |
|  |                  |                  |            | 86,647,893       |                  | 86,650,204  |
| INVESTMENTS (at fair value): (Notes 1 and 5) (Page 37).                        |                  |                  |            |                  |                  |             |
| Cash equivalents   | 10,140,836       | 636,815          | 11,068,306 | 6,734,241        | 1,893,797        | 9,162,404   |
| Collateral held under Securities Lending Program (Notes 5 and 10)              | 4,846,763        | -                | 4,846,763  | -                | -                | -           |
| Bonds  | 14,080,149       | 884,192          | 15,367,904 | -                | -                | -           |
| Stock  | 35,532,532       | 2,231,340        | 1,018,427  | -                | -                | -           |
| Mutual funds (Note 16)   | 36,598,082       | 2,298,253        | 1,048,968  | -                | -                | -           |
| Notes receivable (Note 12)   | 18,421,032       | 1,156,787        | 527,980    | -                | -                | -           |
| Investment in limited liability corporations (Note 14)                         | 14,778,816       | 928,067          | 423,588    | -                | -                | -           |
| Investment in corporation (Note 15)  | 7,733,244        | 485,625          | 221,649    | -                | -                | -           |
| Investment in trust (Note 17)  | 974,105          | 61,171           | 27,920     | -                | -                | -           |
| Investment in real estate  | 349,074          | 21,921           | 10,005     | -                | -                | -           |
| Investment in partnerships (Note 13)   | 24,422,043       | 1,533,633        | 699,980    | -                | -                | -           |
| Manufacturing plant-Greentech Panels (Note 18)                                 | 24,838,484       | 1,559,785        | 711,917    | -                | -                | -           |
| Real estate-Lakewood (Note 19)   | 7,168,875        | 450,185          | 205,473    | -                | -                | -           |
| Total investments  | 199,884,035      | 12,247,774       | 5,590,125  | 6,734,241        | 1,893,797        | 9,162,404   |
| Property and equipment, net of accumulated depreciation of \$129,335 (Note 1). | -                | -                | -          | -                | -                | -           |
| Total assets   | 207,789,294      | 12,664,040       | 5,780,117  | 38,979           | 3,121,279        | 38,979      |
|  |                  |                  |            | 97,849,979       |                  | 101,851,978 |
| LIABILITIES:   |                  |                  |            |                  |                  |             |
| Accounts payable   | 135,041          | -                | 135,041    | 576              | -                | 576         |
| Accounts payable-Greentech Panel   | 274,852          | -                | 274,852    | -                | -                | -           |
| Note payable - Greentech Panels - current (Note 20)                            | 1,826,691        | -                | 1,826,691  | -                | -                | -           |
| Note payable - Greentech Panels - long-term (Note 20)                          | 17,620,347       | -                | 17,620,347 | -                | -                | -           |
| Accounts payable-Lakewood  | 98,088           | -                | 98,088     | -                | -                | -           |
| Notes payable - payroll taxes payable  | 55,973           | -                | 55,973     | 68,529           | -                | 68,529      |
| Investment payable   | 106,492          | -                | 106,492    | -                | -                | -           |
| Due to other system  | 564              | -                | 564        | -                | -                | -           |
| Obligation under Securities Lending Program (Notes 5 and 10)                   | 4,846,763        | -                | 4,846,763  | -                | -                | -           |
| Total liabilities  | 24,964,811       | -                | 24,964,811 | 69,105           | -                | 69,105      |
|  |                  |                  |            |                  |                  |             |
| MINORITY INTEREST-GREENTECH PANELS   | 255,480          | -                | 255,480    | -                | -                | -           |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS                                  | 182,569,003      | 12,664,040       | 5,780,117  | 97,780,874       | 3,121,279        | 101,782,873 |

See accompanying notes.

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See accompanying notes.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

In addition, these financial statements include the implementation of GASB Number 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and related standards. This new standard provides for inclusion of a management discussion and analysis as supplementary information and other changes.

The consolidated financial statements include the accounts of the Firefighters' Pension and Relief Fund of the City of New Orleans and its 80.525% owned subsidiary Greentech Panels, L.L.C. and its 99% owned subsidiary Lakewood Restoration Partners, Ltd.. All significant intercompany balances have been eliminated in the consolidation.

Basis of Accounting:

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

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

Methods Used to Value and Report Investments:

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments in notes receivables, partnerships, limited liability corporations, corporations and trusts are reported at fair value, except for investments in limited liability corporations totaling \$1,934,000, which are valued using the equity method of accounting.

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

FIREFIGHTERS' PENSION AND RELIEF FUND  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Futures Contracts:

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

Property and Equipment – Pension Fund:

Property and equipment is valued on the basis of historical cost and depreciated using the straight-line method of depreciation. Depreciation expense for the year ended December 31, 2004 is \$38,429.

Property, Plant and Equipment – Greentech Panels, L.L.C.:

Property, plant and equipment are recorded at cost less depreciation. Depreciation is accounted for on the straight-line method based on estimated useful lives. Expenditures for major betterments and additions are charged to the asset accounts while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense currently. Costs incurred for the development, construction and installation of certain equipment and leasehold improvements are capitalized, including a portion of the interest incurred during the construction period.

Long-lived Assets – Greentech Panels, L.L.C.:

Management evaluates the recoverability of its property and equipment in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets". This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and value of the asset.

2. PLAN DESCRIPTION:

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

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

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

At December 31, 2004, the Firefighters' Pension and Relief Fund's membership consisted of:

|  | <u>New<br/>System</u> | <u>Old<br/>System</u> |
|--|-----------------------|-----------------------|
| Current retirees and beneficiaries   | 441                   | 768                   |
| Terminated with contributions on<br>deposit with the System                | 6                     | --                    |
| Terminated vested employees who have<br>not withdrawn contributions (DROP) | 92                    | 3                     |
| Vested and nonvested active employees covered                              | <u>617</u>            | <u>--</u>             |
| TOTAL PARTICIPANTS AS<br>OF THE VALUATION DATE                             | <u>1,156</u>          | <u>771</u>            |

Retirement Benefits

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

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

Disability Benefits

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

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2. PLAN DESCRIPTION: (Continued)

Survivor Benefits

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

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

Refund Benefits

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

DROP Benefits

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

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2. PLAN DESCRIPTION: (Continued)

DROP Benefits (Continued)

Upon completion of participation in the DROP, and regardless of whether the member terminates employment, the DROP fund will earn interest annually based on a five-year rolling average of the composite rate of return of the Fund, minus an administrative fee of no more than two percent, to be deducted from the member's account each year. Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan may receive, at his option, a lump sum from the account equal to the payments into the account. The monthly benefits that were being paid into the deferred retirement option plan fund will begin to be paid to the retiree. If a participant dies during the participation in the plan, a lump sum equal to his account balance in the plan fund shall be paid to his named beneficiary or, if none, to his estate. If employment is not terminated at the end of the five years, payments into the plan fund cease and the person resumes active contributing membership in the system.

PLOP Benefits

A member, upon application for retirement, may elect to receive the actuarial equivalent of his retirement benefit as a reduced monthly benefit payable for life, plus an initial lump-sum benefit. The amount of the initial lump-sum benefit, as determined by the member, shall not exceed an amount equal to the member's normal retirement benefit times sixty. The member's monthly retirement benefit will be actuarially reduced based on the lump-sum amount withdrawn and the member's age at retirement. The partial lump-sum benefit, together with the member's reduced normal retirement benefit, must be actuarially equivalent to the member's normal retirement benefit. The cost-of-living adjustment granted by the Board of Trustees to retirees who elect to receive a reduced retirement benefit and a partial lump-sum benefit shall be based only on the reduced retirement benefit and not on the partial lump-sum benefit.

3. CONTRIBUTION RECEIVABLE, CONTRIBUTIONS AND RESERVES:

Contribution Receivable

In 2000, the Council of the City of New Orleans, the Trustees of the Fund, and the Board of City Trusts entered into an agreement to fund a portion of the City's projected pension obligations under La. R.S. 11:3375 and thereby funding in advance such deficit.

A Trust was created in 2000 by the City of New Orleans for the purpose of funding a portion of the projected unfunded accrued liability of the Old System. \$157,243,748 of the proceeds of a Taxable Pension Revenue Bonds, Series 2000, issued by the City of New Orleans was delivered to the Trust to be disbursed solely for the purpose of paying pension benefits to the beneficiaries of the Old System. The creation of the Trust is irrevocable and the City of New Orleans has no rights to alter, amend, or terminate the Trust. The beneficiaries of the Old System are the sole beneficiaries of the Trust. The Trust shall terminate when all amounts held by the Trust are distributed to the Old System.

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3. CONTRIBUTION RECEIVABLE, CONTRIBUTIONS AND RESERVES: (Continued)

Contribution Receivable (Continued)

The Board of City Trusts solely administers, directs, and controls the Trust and invests such funds in accordance with the provision of Part XIII of Chapter 2 of Subtitle IV of Title 11 of the Revised Statutes of Louisiana as amended including no more than sixty-five percent of such funds in equities as limited by La. R.S. 11:3370(G).

The City and the Fund agree that the proceeds of the bonds deposited in the Trust constitute contributions of public funds to a pension program for the benefit of public employees but do not constitute a deposit to the Fund until distributed by the Board of City Trusts from the Trust to the Fund in accordance with the agreement. The assets of the Trust are not assets of the Fund.

In accordance with Governmental Accounting Standards, a long-term contribution receivable in the amount of \$157,243,748 was recognized in 2000 because the contributions are due from the City; there is a formal commitment under the cooperative agreement with the City and the Board of City Trusts; and due to the fact that the funds are set aside in trust solely for the benefit of the Fund.

The terms of the receivable are that the difference between the contributions from the City and the amounts actuarially certified as required to fund pensions will be disbursed from the Trust and reduce the receivable. In addition, any income earned on the assets in the Trust increase the receivable; and any expenses incurred on assets in the Trust decrease the receivable. When the value of the Trust is 75% of the amount necessary to actuarially fund the Old System, then the City may determine not to make payments in which case all payments to fund pensions shall be made in full by the Trust. All payments from the Trust reduce the receivable.

The balance of the receivable was \$98,169,136 at January 1, 2004. During the year the receivable was reduced by \$20,397,636 for the payment of 2004 pensions, \$409,549 for investment management fees, \$55,446 for fiduciary insurance and \$6,570 for actuarial fees. The receivable was increased by \$7,347,638 for the net appreciation in fair value of the investments and \$1,993,350 for interest and dividends earned on assets in the Trust. The balance of the receivable at December 31, 2004 is \$86,640,923. Information is not available to compute the annual maturities of the receivable.

Contributions

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

The Old System is funded by employer contributions established by state statute. There are no active employees in the Old System, thus no employee contributions are required.



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3. CONTRIBUTION RECEIVABLE, CONTRIBUTIONS AND RESERVES: (Continued)

Contributions (Continued)

Employer contributions for the Old System are made monthly by the City of New Orleans. The difference between the contributions made by the City and the amount actuarially certified as required by the Old System are made monthly from the Firefighters' Pension and Retirement Fund Trust (the Trust) in accordance with a Cooperative Endeavor Agreement among the City, the Fund and the Trust. During the year ended December 31, 2004, all contributions were made from the Trust. Annual contributions to the Old System do not include amortization of past service cost.

In addition, the Fund receives fire insurance taxes of 2% of the fire insurance premiums written in the City of New Orleans. In 2004, amounts received as a result of this tax were divided equally between the two systems.

Administrative costs of the Fund are financed through employer contributions.

Reserves:

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

A) Pension Reserve:

The Pension Reserve consists of the reserves for all pensions, excluding cost-of-living increases, granted to members and is the fund from which such pensions and other benefits are paid. Survivors of deceased beneficiaries also receive benefits from this fund. The Pension Reserve balance of the New System is \$140,524,939 and it is fully funded. The Pension Reserve Balance of the Old System is \$165,024,229 and it is 59% funded.

B) Annuity Savings:

The Annuity Savings is credited with contributions made by members of the Fund. When a member terminates his service, or upon his death before qualifying for a benefit, the refund of his contributions is made from this reserve. When a member retires, the amount of his accumulated contributions is transferred to the Pension Reserve to provide part of the benefits. The Annuity Savings balance of the New System is \$16,643,583 and it is fully funded. The Annuity Savings balance of the Old System is \$-0-.

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3. CONTRIBUTION RECEIVABLE, CONTRIBUTIONS AND RESERVES: (Continued)

Reserves: (Continued)

C) Pension Accumulation:

The Pension Accumulation consists of contributions paid by employers, interest earned on investments and any other income not covered by other accounts. This fund is charged annually with an amount, determined by the actuary, to be transferred to the Pension Reserve to fund retirement benefits for existing recipients. It is also relieved when expenditures are not covered by other accounts. The Pension Accumulation balance of the New System is \$17,881,016 and it is fully funded. The Pension Accumulation balance of the Old System is \$-0-.

D) Deferred Retirement Option Plan Account:

The Deferred Retirement Option Plan (DROP) Account receives and holds the monthly retirement benefits deposited on behalf of DROP participants while they continue to work. At termination, a lump sum payment of the DROP deposits is made to the participant or the participant may elect to leave the accumulated benefits on deposit in the DROP account. The DROP account balance of the New System is \$12,664,040 and it is fully funded. The DROP balance of the Old System is \$3,121,279 and it is fully funded.

E) Partial Lump-Sum Option Payment Account:

The Partial Lump-Sum Option Payment (PLOP) Account receives and holds until requested an initial lump-sum benefit which shall not exceed an amount equal to the member's normal retirement benefit times sixty, for those members who upon application for retirement, elect to receive the actuarial equivalent of their retirement benefit as a reduced monthly benefit plus an initial lump-sum benefit. The PLOP account balance of the New System is \$5,780,117 and it is fully funded. The PLOP balance of the Old System is \$880,720 and it is fully funded.

4. ACTUARIAL COST METHOD:

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

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4. ACTUARIAL COST METHOD: (Continued)

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

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

5. DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS:

Following are the components of the Fund's deposits, cash equivalents and investments at December 31, 2004:

|                         | <u>NEW<br/>SYSTEM</u> | <u>OLD<br/>SYSTEM</u> |
|-------------------------|-----------------------|-----------------------|
| Deposits (Bank balance) | \$ 599,764            | \$ 6,645,299          |
| Cash equivalents        | 11,068,306            | 9,162,404             |
| Investments             | 206,653,628           | --                    |

Deposits:

The Fund's bank account balances as of December 31, 2004 were entirely covered by federal depository insurance. The bank account balances of the Fund's subsidiary Greentech Panels, L.L.C. exceeded the amount covered by federal depository insurance by \$518,940 at December 31, 2004.

Cash Equivalents:

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

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

Investments:

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

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

|  | <u>Market Value</u>   | <u>Category</u> |
|--|-----------------------|-----------------|
| <u>New System</u>  |                       |                 |
| Collateral held under Securities Lending Program                             | \$ 4,846,763          | 2               |
| Bonds  | 14,561,579            | 1               |
| Stocks   | 34,899,747            | 1               |
| Notes receivable   | 20,105,799            | N/A             |
| Mutual funds   | 39,945,303            | N/A             |
| Investment in corporation  | 8,440,518             | N/A             |
| Investment in partnerships   | 26,655,656            | N/A             |
| Investment in limited liability corporations                                 | 16,130,471            | N/A             |
| Investment in trust  | 1,063,196             | N/A             |
| Investment in real estate  | 381,000               | N/A             |
| Manufacturing plant – Greentech Panels, L.L.C.                               | 27,110,186            | N/A             |
| Real estate – Lakewood   | 7,824,533             | N/A             |
| Investments held by broker-dealers in<br>which collateral may be reinvested: |                       |                 |
| Bonds  | 805,325               | N/A             |
| Stocks   | 3,882,552             | N/A             |
| TOTAL  | <u>\$ 206,653,628</u> |                 |

Market values for the New System are furnished by the Fund's custodial bank and independent public sources.

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6. PER DIEM PAID TO BOARD MEMBERS:

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

7. OPERATING LEASES:

Pension Fund: The Fund leases office space under an operating lease expiring December 2007. Total rent expense for the year ended December 31, 2004 was \$45,969.

Greentech Panels, L.L.C.: Greentech Panels, L.L.C. has an operating lease for the use of land and buildings in its operations. The lease term is for a base period of fifteen years and expires on June 30, 2018. The Company may terminate the lease 60 days prior to the end of any calendar year with written notice. Upon mutual agreement, this lease may be renewed for two additional terms of five years each. For the year ended December 31, 2004, rent expense was \$144,352. Future minimum rent payments under the leases are as follows:

| <u>Year</u> | <u>Pension<br/>Fund</u> | <u>Greentech<br/>Panels<br/>L.L.C.</u> | <u>Total</u>        |
|-------------|-------------------------|--|---------------------|
| 2005        | \$ 45,969               | \$ 143,300                             | \$ 189,269          |
| 2006        | 45,969                  | 143,300                                | 189,269             |
| 2007        | 45,969                  | 143,300                                | 189,269             |
| 2008        | --                      | 143,300                                | 143,300             |
| 2009        | --                      | 143,300                                | 143,300             |
| Thereafter  | --                      | 1,433,000                              | 1,433,000           |
|             | <u>\$ 137,907</u>       | <u>\$ 2,149,500</u>                    | <u>\$ 2,287,407</u> |

8. USE OF ESTIMATES:

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

9. REQUIRED SUPPLEMENTARY SCHEDULE INFORMATION:

Information in the Required Supplementary Schedules is designed to provide information about the Fund's progress made in accumulating sufficient assets to pay benefits and is presented on pages 39 - 41.

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10. SECURITY LENDING AGREEMENTS:

The Board of Trustees of the Fund authorized the Fund to enter into reverse repurchase agreements in the operation of its securities lending program. These agreements consist of the loan of stock and bonds with a simultaneous agreement to reacquire the same loaned security in the future plus a contract rate of interest. The Fund requires the dealer to transfer cash or collateral of 100% of the market value of the securities underlying the reverse repurchase agreements.

In cases of security loans in which the collateral received by the Fund is cash, the Fund is able to reinvest the cash under the agreement with the dealer. When this occurs the collateral is reported as an asset with a corresponding liability. If the Fund receives collateral other than cash, it may not reinvest the collateral. When this occurs, the Fund does not record the collateral on the financial statements. In both cases, the loaned securities continue to be reported as an asset on the balance sheet and in footnote 5. The cash collateral was invested in cash equivalents and fixed income securities at December 31, 2004. The maturities of these investments match the maturities of the securities loans.

The information was not available to compute the gross amount of interest income earned and interest expense incurred from security lending transactions. The net income received from the transactions in the amount of \$17,878 is recorded on the financial statements in investment income.

11. FUTURES CONTRACTS:

The Fund has entered into futures contracts for the purpose of trading. At December 31, 2004, the New System had outstanding 163 index futures contracts, all maturing March 2005. The Old System had outstanding 11 treasury bond and note futures contracts and 55 index futures contracts, all maturing March 2005. The notional value of the open contracts at December 31, 2004 was \$9,684,451 and \$4,481,305 for the New System and Old System, respectively. The fair value of the open contracts at December 31, 2004 was \$9,891,655 and \$4,561,050 for the New System and Old System, respectively.

The Fund is exposed to credit loss in the event of nonperformance by the other parties to the futures contracts. However, the Fund does not anticipate nonperformance by the counterparties. The Fund is exposed to market risk as a result of possible future changes in market prices. The maximum amount of credit or market risk to the Fund is the notional value of the contracts. During the year ended December 31, 2004, the New System realized net gains of \$915,933 on futures trading. The Old System realized gains of \$303,667 on futures trading. The net gains are recorded on the financial statements in investment income.

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11. FUTURES CONTRACTS: (Continued)

The Fund is required to pledge \$1,040,000 of treasury bills as collateral for the trading account for the New System. At December 31, 2004, the pledged bills' carrying value was \$1,036,728. The Fund is also required to maintain a margin account to serve as the source of funds for any required variation margin. At December 31, 2004, the margin account's balance was \$7,816,463.

The Fund is required to pledge \$320,000 in treasury bills as collateral for the trading account for the Old System. At December 31, 2004, the pledged treasury bills' carrying value was \$318,834. The Fund is also required to maintain a margin account to serve as the source of funds for any required margin variation. At December 31, 2004, the margin account's balance was \$4,787,154.

12. NOTES RECEIVABLE:

During the year ended December 31, 2004, the New System of the Fund had notes receivable from seven corporations and partnerships. The terms and details of the notes are as follows:

- a) The Fund has loaned \$1,760,000 to BSL Golf of California, Inc. The loan bears interest at 8.5%, due in quarterly installments. Principal is to be paid in quarterly installments commencing January 31, 2004 until the balance due is \$10,000. The remaining \$10,000 will be due on January 14, 2037.

The note is collateralized by a deed of trust granting a mortgage ranking in second position on property and improvements for BSL's golf course facilities. As of December 31, 2001, the first mortgage on the property and improvements was \$15,000,000. As additional collateral, the Fund holds a security interest in 1,000 shares

of the stock of BSL. Additional interest of the greater of 20% of net cash flow (gross income of the property less operating expenses of the property) or projected net cash flow (as detailed in the loan agreement) is due in annual installments commencing January 31, 2000, until the note is paid in full. The balance of the loan is \$1,699,779 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest (including additional interest) of \$149,679 which is recorded as investment income.

- b) On November 21, 2001, the Fund loaned \$4,100,000 to the Spillman Development Group, Ltd. (the partnership). The loan bears interest at 10% and has been prepaid through the second anniversary of the note. In 2003, this loan was modified to extend the date when interest payments start to December 31, 2004. Unless sooner accelerated, a balloon principal payment of \$4,090,000 will be payable on December 31, 2011. Thereafter, the remaining \$10,000 will be payable on or before December 31, 2099.

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12. NOTES RECEIVABLE: (Continued)

The Fund may, by giving written notice of its desire to do so on or before April 30, 2006, accelerate the balance due under the loan and, in said event, the partnership is required to pay all unpaid principal to an unpaid balance of \$10,000, plus all accrued interest with respect to the simple interest component and the additional interest component. The partnership will subsequently be required to pay to the Fund the applicable prepayment penalty as provided for in the agreement.

The note is collateralized by a deed of trust granting a mortgage ranking in second position on property and improvements for the Spillman Ranch golf course. Additional interest of the greater of 17% of net cash flow (gross income of the property less operating expenses of the property) or priority net cash flow (as detailed in the loan agreement) is due in annual installments commencing the last day of April following the first calendar year during which there is positive net cash flow or the priority of net cash flow payment required in conjunction with the loan is greater than zero. The balance of the loan is \$4,100,000 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest of \$410,000 which is recorded as investment income.

- c) On March 19, 2003, the Fund loaned \$5,000,000 to American Pension Consultants, L.L.C. (the corporation). The loan bears interest at 9.5%, commencing from the date of the advance of the funds, with payments due in quarterly installments commencing March 31, 2003. The principal balance is due at a date mutually agreed to by the Fund and the corporation. The loan is collateralized by a minimum of \$5,250,000 of life insurance policies to be purchased with the loan proceeds. The balance of the loan is \$5,000,000 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest of \$475,000, which is recorded in investment income.
- d) On April 16, 2003, the Fund loaned \$2,150,000 to Santa Maria Interest, L.L.C. (the corporation). The loan bears interest at 10%, commencing from the date of the advance of the funds, with payments due in quarterly installments beginning on June 30, 2003. The principal balance is due on April 15, 2005. The loan is subordinate and subject in right of payment to the prior payment in full of the senior indebtedness of the corporation. The balance of the loan is \$1,631,020 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest of \$176,549, which is recorded in investment income.
- e) On July 16, 2004, the Fund loaned \$3,800,000 to Ambassador Hotel, L.L.C. (the corporation). For the first thirty-six months the loan bears interest at 10%, for months thirty-seven through forty-eight the rate is 11%, and for months forty-nine through one hundred twenty the rate is 12%. Payments are due in quarterly installments beginning on



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12. NOTES RECEIVABLE: (Continued)

December 31, 2004. The principal balance is due on June 30, 2014. The loan is subordinate and subject in right of payment to the prior payment in full of the senior indebtedness of the corporation. The Fund has the right to demand payment of the then remaining unpaid amount by giving the corporation six months written notice effective July 15, 2009. The balance of the loan is \$3,800,000 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest of \$172,823, which is recorded in investment income.

- f) On August 13, 2004, the Fund loaned \$3,500,000 to Gulf Islands Water Park, L.L.C. (the corporation). The loan bears interest at 10%, commencing from the date of the advance of the funds, with payments due in quarterly installments beginning on June 30, 2005. In addition to the coupon interest, the Fund is entitled to an annual interest premium based on the attendance at the Water Park. Principal payments are due annually beginning on March 1, 2006 based on the lesser amount of 100% of "Adjusted Operating Profit" as defined in the agreement, or \$350,000. The remaining unpaid principal balance is due on March 1, 2015. The loan is subordinate and subject in right of payment to the prior payment in full of the senior indebtedness of the corporation. The balance of the loan is \$3,500,000 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest of \$101,124, which is recorded in investment income.
- g) On August 6, 2004, the Fund committed to lend a maximum amount of \$600,000 to South Peters Hotel Investors, L.P. (the partnership). The loan bears interest at 12%, commencing from the date of the advance of the funds, until the principal is paid in full in monthly arrear. Principal payments of \$50,000 per month are due beginning on January 31, 2005 and continuing until June 30, 2005. Principal payments of \$75,000 per month are due on October 31, 2005 and November 30, 2005. Beginning on February 28, 2006 and until the principal balance is paid in full, payments of \$50,000 per month are due. The loan is subordinate and subject in right of payment to the prior payment in full of the senior indebtedness of the partnership. The balance of the loan is \$375,000 at December 31, 2004. For the year ended December 31, 2004, the Fund earned interest of \$17,875, which is recorded in investment income.

13. INVESTMENT IN PARTNERSHIPS:

During the year ended December 31, 2004, the New System of the Fund had investments in ten partnerships as follows:

- a) The New System of the Fund has an investment of \$5,223,849 as a limited partner in First America Asia Fund I, L.P. (the partnership). The partnership was formed to achieve significant long-term capital gains through investment in holding companies owned by companies which will use the funds to invest in private joint ventures in Asia, excluding Japan.

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13. INVESTMENT IN PARTNERSHIPS: (Continued)

Net income or loss is allocated on an annual basis to the capital accounts of the partners in proportion to their respective capital accounts. The Fund had no income or loss for the year ended December 31, 2004.

- b) The New System of the Fund has committed to invest \$2,000,000 in Trans-Europe Buyout Partners III, L.P. (the partnership). As of December 31, 2004, the Fund has invested \$1,470,868 in the partnership. The partnership was formed to qualify as a Professional Investor Fund and thereafter to invest in buyout funds. As of December 31, 2004, the Fund has an investment of \$1,753,055 in the partnership.

Net income or loss is allocated on an annual basis to the capital accounts of the partners in proportion to their capital commitments. The Fund's share of partnership income for 2004 was \$451,115 and is included in investment income.

- c) The New System of the Fund has committed to invest \$3,000,000 in Trans-Europe Buyout Partners IV, L.P. (the partnership). As of December 31, 2004, the Fund has invested \$2,250,000 in the partnership. The partnership was formed to qualify as a Professional Investor Fund and thereafter to invest in buyout funds. As of December 31, 2004, the Fund has an investment of \$2,664,734 in the partnership.

Net income or loss is allocated on an annual basis to the capital accounts of the partners in proportion to their capital commitments. The Fund's share of partnership income for 2004 was \$785,296 and is included in investment income.

- d) The New System of the Fund committed and invested \$2,000,000 in the Clarion CRA Hedge Fund, L.P. (the partnership). The partnership was formed to serve as a fund through which the assets will be utilized to invest, hold and trade in securities and other financial instruments, and rights and options relating thereto. As of December 31, 2004, the Fund has an investment of \$2,992,429 in the partnership.

Net income or loss is allocated on an annual basis to the capital accounts of the partners in proportion to their capital commitments. The Fund's share of partnership income for 2004 was \$1,102,427 and is included in investment income.

- e) The New System of the Fund has committed to invest \$3,000,000 in the LEM Real Estate Mezzanine Fund, L.P. (the partnership). As of December 31, 2004, the Fund has invested \$1,050,000 in the partnership. The partnership was formed to seek current and deferred returns through investments in high yielding, subordinated real estate related debt and preferred equity interests including junior or subordinated mortgage loans, loans secured by pledges of partnership interests, preferred equity investments and other high-yielding investments collateralized by various types of real estate properties. As of December 31, 2004, the Fund has an investment of \$1,819,291 in the partnership.

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13. INVESTMENT IN PARTNERSHIPS: (Continued)

Net losses are allocated to the partners in proportion to the partners' participating percentages. Net income is allocated and based on the partners' respective ownership interests. The Fund's share of partnership income for 2004 was \$131,566 and is included in investment income.

- f) The New System of the Fund has committed and invested \$852,500 in the OCM Mezzanine Fund, L.P. (the partnership). The partnership was formed for the purpose of allowing qualified investors to pool their assets to invest in mezzanine investments. As of December 31, 2004, the Fund has an investment of \$907,535 in the partnership.

Net income or loss is allocated to the capital accounts of the partners in proportion to their capital commitments. The Fund's share of partnership loss for 2004 was \$153,725 and is included in investment income.

- g) The New System of the Fund has committed to invest \$3,000,000 in Montagu Newhall Global Partners II, L.P. (the partnership). As of December 31, 2004, the Fund has invested \$300,000 in the partnership. The partnership was formed to generate significant returns for its partners, principally through long-term capital appreciation, by making, holding and disposing of privately negotiated equity and equity-related investments, principally in venture capital and private equity partnerships and operating companies. As of December 31, 2004, the Fund has an investment of \$200,172 in the partnership.

Net income or loss is allocated to the capital accounts of the partners generally in proportion to their respective ownership interests. The Fund's share of partnership loss for 2004 was \$61,674 and is included in investment income.

- h) The New System of the Fund has committed to invest \$5,000,000 in Americus Real Estate Fund No. 1 Ltd. (the partnership). As of December 31, 2004, the Fund has invested \$2,732,567 in the partnership. The partnership was formed to acquire strategic commercial real estate properties occupied by public sector tenants meeting established criteria for conversion to a capital lease program. As of December 31, 2004, the Fund has an investment of \$3,110,731 in the partnership.

Net income or loss is allocated to the capital accounts of the partners in proportion to their respective ownership interests. The Fund's share of income related to the partnership was \$487,569. The Fund also received priority return of \$367,142 on its capital contribution. Both amounts are recorded in investment income.

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13. INVESTMENT IN PARTNERSHIPS: (Continued)

Net income or loss is allocated to the capital accounts of the partners generally in proportion to their respective ownership interests. The Fund's share of partnership income for 2004 was \$114,752 and is included in investment income.

- j) The New System of the Fund has committed and invested \$3,000,000 in Panther Fund, L.P. (the partnership). The partnership was formed to invest in medical accounts receivable. As of December 31, 2004, the Fund has an investment of \$2,869,108 in the partnership, net of capital distributions of \$165,774.

Net income or loss is allocated to the capital accounts of the partners generally in proportion to their respective ownership interests. The Fund's share of partnership income for 2004 was \$34,882 and is included in investment income.

14. INVESTMENT IN LIMITED LIABILITY CORPORATIONS:

During the year ended December 31, 2004, the New System of the Fund had investments in eleven limited liability corporations as follows:

- a) The Fund has an investment of \$5,401,274 in Flashover Properties, L.L.C. (Flashover). The Fund is the sole member of Flashover. Flashover has invested solely as a limited partner in the South Peters Hotel Investors, L.P. (the partnership). The partnership was formed for the purpose of acquiring, developing and operating a hotel and parking garage complex.

Net income of the partnership is allocated to the capital accounts of the partners based upon each partner's capital contribution in relation to the total capital contributions made or required to be made by all of its partners. In addition, Flashover was entitled to an annual return of seven and one-half percent on its capital contribution, which accrued from the date of investment of the capital contribution until the date of operation of the hotel. Flashover is also entitled to an annual priority return of fourteen percent of its capital contribution from the date the hotel is in operation. The hotel began operations near the end of 2000. In 2004, the Fund received \$674,956 in priority return on its capital contribution. The Fund's share of income related to the corporation was \$1,674,510. The priority return and the income were recorded as investment income in the financial statements of the Fund.

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14. INVESTMENT IN LIMITED LIABILITY CORPORATIONS: (Continued)

- b) The Fund is the sole member of a limited liability corporation named Firewood Estates, L.L.C. (Firewood). Firewood is a 30% member of Riverwood Estates Phase I, L.L.C. (Riverwood), which was formed to develop unimproved property in St. Rose, Louisiana. Since the Fund is the sole member of Firewood, the assets of Firewood are consolidated with the Fund. The assets include an investment in Riverwood of \$226,731.

For the year ended December 31, 2004, the Funds' income related to Riverwood was \$314,159 which is recorded in investment income.

- c) The New System of the Fund has committed to invest \$4,000,000 in the Wilton Private Equity Fund, L.L.C. (the corporation). As of December 31, 2004, the Fund has invested \$2,080,831 in the corporation. The corporation is a Delaware limited liability corporation that invests in closed-end private investment funds that target investments in leveraged buyouts, mezzanine financings, distressed debt, natural resources and venture capital. As of December 31, 2004, the Fund has an investment of \$1,934,000 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's net income was \$270,685, which is recorded in investment income.

- d) The New System of the Fund has invested \$200,000 in 725 Heavens, L.L.C. (the corporation). The Fund has a 28.571% interest in the corporation, which was formed to own and operate an apartment complex in Mandeville, Louisiana. At December 31, 2004, the Fund has an investment of \$214,305 in the company.

Net income or loss of the corporation is allocated as follows:

1. To the members and assignees until cumulative profits allocated are equal to all prior cumulative losses allocated.
2. To the members in the investor group until the cumulative profits allocated is equal to the sum of the priority return actually paid to the members.
3. Until the adjusted contributions of the members in the investor group have been reduced to zero according to their sharing ratios per the operating agreement.
4. After the adjusted contributions noted above have been reduced to zero, to the members and assignees in proportion to any cash distributions made pursuant to the operating agreement.

The Fund's share of the corporation's income was \$12,658. The Fund also received priority return of \$21,398 on its capital contribution. Both amounts are recorded in investment income.

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14. INVESTMENT IN LIMITED LIABILITY CORPORATIONS: (Continued)

- e) The New System of the Fund has committed to invest \$4,000,000 in the Intercontinental Real Estate Investment Fund III, L.L.C. (the corporation). As of December 31, 2004, the Fund has invested \$1,892,000 in the corporation. The corporation is a closed-end, commingled real estate investment fund which targets properties which are generating a current return and also have the potential for capital appreciation through some degree of asset repositioning, re-tenanting or through physical or financial repositioning. As of December 31, 2004, the Fund has an investment of \$1,780,816 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's net loss was \$53,433, which is recorded in investment income.

- f) The Fund has committed and invested \$3,000,000 in the Endgame Entertainment Fund, L.L.C. (the corporation), a Delaware limited liability corporation that was created to enable its investors to participate in entertainment investment opportunities across a variety of sectors at various stages of funding. As of December 31, 2004, the Fund has an investment of \$3,920,000 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's net income was \$1,037,804, which is included in investment income.

- g) The Fund has committed and invested \$250,000 in Hillcrest Apartment Homes, L.L.C. (the corporation), a Louisiana limited liability corporation that was formed to own and operate an apartment complex in Mobile, Alabama. As of December 31, 2004, the Fund has an investment of \$246,117 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's income was \$6,031. The Fund also received priority return of \$25,000 on its capital contribution. Both amounts are recorded in investment income.

- h) The Fund has committed and invested \$650,000 in PMAT Morningside Plaza, L.L.C. (the corporation), a Delaware limited liability corporation that was formed to acquire, operate and manage a retail shopping center in Dade City, Florida. As of December 31, 2004, the Fund has an investment of \$1,000,000 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's income was \$353,375. The Fund also received priority return of \$65,000 on its capital contribution. Both amounts are recorded in investment income.

- i) The Fund has an investment of \$147,156 in Santa Maria Interest, L.L.C. (the corporation), a Louisiana limited liability corporation that was formed to develop, own and operate a residential development in Baton Rouge, Louisiana. The Fund also has a note receivable from the corporation (detailed in Note 12).

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14. INVESTMENT IN LIMITED LIABILITY CORPORATIONS: (Continued)

For the year ended December 31, 2004, the Fund's earned interest of \$176,549 on the note, which is recorded as investment income. The Fund's share of the corporation's net income was \$98,642, which is included in investment income.

- j) The Fund has committed and invested \$660,500 in PMAT Weathersfield Commons, L.L.C. (the corporation), a Delaware limited liability corporation that was created to acquire, operate and manage a retail shopping center in Dunedin, Florida. As of December 31, 2004, the Fund has an investment of \$664,884 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's net income was \$4,384. The Fund also received priority return of \$14,766 on its capital contribution. Both amounts are recorded in investment income.

- k) The Fund has committed and invested \$600,000 in PMAT Flamingo Investment, L.L.C. (the corporation), a Delaware limited liability corporation that was created to acquire, operate and manage a retail shopping center in Pembroke Pines, Florida. As of December 31, 2004, the Fund has an investment of \$595,188 in the corporation.

For the year ended December 31, 2004, the Fund's share of the corporation's net loss was \$4,812. The Fund also received priority return of \$986 on its capital contribution. Both amounts are recorded in investment income.

15. INVESTMENT IN CORPORATION:

The New System of the Fund committed and invested \$6,614,196, net of redemptions, in the OCM Emerging Markets (Cayman) Fund, Ltd. (the corporation), a Cayman Islands corporation that acts solely as a feeder fund and invests all of its assets in the OCM Emerging Markets Fund, L.P. (the partnership). The partnership invests in equity securities and obligations of emerging markets entities with a primary emphasis on Asia excluding Japan and a secondary emphasis on Latin America, Eastern Europe and Russia. The partnership focuses primarily on listed equities but, in some instances, may also invest in private or unlisted equity interests, debt securities and derivative products. The partnership also engages in short selling strategies and may leverage its capital. As of December 31, 2004, the Fund has an investment of \$8,440,518 in the corporation.

The corporation's net income for the year ended December 31, 2004, which includes income from foreign currency transactions, was \$1,206,055 and is included in investment income.

16. MUTUAL FUNDS:

During the year ended December 31, 2004, the New System of the Fund had invested in mutual funds as follows:

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16. MUTUAL FUNDS: (Continued)

- a) The New System of the Fund has invested \$4,000,000 in Structured Servicing Holdings (Offshore), Ltd. (the "Company")(a Cayman Islands exempt company). The Company was formed as an offshore feeder fund of Structured Servicing Master Fund, L.P. (the "Master"), and in 2003 invested substantially all of its net assets in the Master. The objective of the Company is to buy and hold nonconforming interest-only strips which are subject to exposure to mortgage prepayment risk. At December 31, 2004, the Fund has an investment of \$5,132,933 in the Company.

The Fund's share of income from the mutual fund for 2004 was \$1,132,933 and is included in investment income.

- b) The New System of the Fund has invested \$2,000,000 in the Clinton Multistrategy Fund, Ltd. (the "Company")(a Cayman Islands exempt company). The Company was formed as a feeder fund of the Clinton Multistrategy Master Fund, Ltd. (the "Master")(a Cayman Islands exempt company) and invests exclusively in the Master. The primary objective of the Company is to achieve above-average growth through worldwide investments in fixed-income and equity-related securities while emphasizing preservation of capital. At December 31, 2004, the Fund has an investment of \$2,463,465 in the Company.

The Fund's share of income from the mutual fund for 2004 was \$463,465 and is included in investment income.

- c) The New System of the Fund has invested \$8,693,275, net of redemptions, in the Fletcher Income Arbitrage Fund, Ltd. (the "Company")(a Cayman Islands company). The Company was formed as a feeder fund that invests in an affiliated master fund, Income Arbitrage Corporation. The purpose of the Company is to engage in the business of trading financial instruments through proprietary trading as well as investing in the master fund. At December 31, 2004, the Fund has an investment of \$9,543,484 in the Company.

The Fund's share of income from the mutual fund for 2004 was \$850,209 and is included in investment income.

- d) The New System of the Fund has invested \$21,842,393, net of redemptions, in the Longleaf Partners Fund. The purpose of the Fund is to achieve long-term capital growth through investment in equity securities of a limited number of mid and large-cap companies. As of December 31, 2004, the Fund has an investment of \$22,805,421.

The Fund's share of income from the mutual fund for 2004 was \$963,028 and is included in investment income.



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17. INVESTMENT IN TRUST:

The New System of the Fund committed and invested \$1,000,000 in the MLM Index Fund (the trust), a Delaware business trust that invests in commodities futures. The trust is a recognized benchmark of the returns available to a futures investor. It is based on daily closing prices of the nearby contract month of a portfolio of the most active futures markets. As of December 31, 2004, the Fund had an investment of \$1,063,196 in the trust.

For the year ended December 31, 2004, the Fund's share of the trust's net income was \$67,550, which is included in investment income.

18. INVESTMENT IN GREENTECH PANELS, L.L.C.:

As a result of a restructure agreement dated October 31, 2004 and approved on November 9, 2004, the managing members of Greentech Panels, L.L.C. (the company), a thin fire retardant particleboard mini-mill located in Shreveport, Louisiana, converted subordinated debt to equity and injected capital into the company. As a result of this injection of capital, the Fund is an 80.525% owner of the company. The consolidated financial statements include the accounts of the company, as described in Note 1. The Fund's share of the net loss of the company of \$4,843,844 for the year ended December 31, 2004 has been reported as investment expense.

19. INVESTMENT IN LAKEWOOD RESTORATION PARTNERS, LTD.:

The Fund is the 99% owner of Lakewood Restoration Partners, Ltd. (the partnership), which was formed to acquire and develop the property located in New Orleans, Louisiana, commonly known as the Lakewood Country Club. The consolidated financial statements include the accounts of the partnership as described in Note 1. An unrealized gain of \$695,520 has been reported on these financial statements in the net appreciation in fair value of investments. The Fund's share of the net loss of the partnership of \$398,379 for the year ended December 31, 2004 has been reported as investment expense.

20. NOTES PAYABLE – GREENTECH PANELS, L.L.C.:

*Debt at December 31, 2004 consisted of the following:*

Note payable (primary debt instrument) – AmSouth Bank; interest is payable monthly at the prime rate as published in the Wall Street Journal plus 2% (effective rate of 6.975% at December 31, 2004); monthly principal installments plus interest beginning January 1, 2005; collateralized by property and equipment and leasehold improvements; matures November 1, 2016; 90% of this loan is unconditionally guaranteed by the U.S. Department of Agriculture (“USDA”) and Armament Retooling Manufacturing Support (“ARMS”)

\$ 16,500,000

Subordinated debt – ARMS Facility Improvement Fund; due in monthly installments of \$32,293.84 beginning May of 2004, the month following the commencement of operations; non-interest bearing; debt is subordinated to AmSouth Bank loan; matures in April of 2011.

2,503,474

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20. NOTES PAYABLE – GREENTECH PANELS, L.L.C.: (Continued)

Subordinated debt – Louisiana Economic Development Corp. (“LEDC”); interest accrues at 12% from October 31 2004; payable in eight (8) quarterly installments of principal of \$62,500 plus accrued interest at 12% with the first installment due on April 1, 2007, with the remaining seven (7) quarterly installments due on the same day of each quarter thereafter until the final installment which is due on January 1, 2009; debt is subordinated to AmSouth Bank loan; matures January 1, 2009.

500,000

Accrued interest on subordinated debt – Louisiana Economic Development Corp. (“LEDC”); accrued interest due on existing notes as of October 31, 2004, payable in eight (8) equal quarterly installments in the amount of \$6,863, with the first installment due on April 1, 2007, and the remaining seven (7) quarterly installments due on the same day of each quarter thereafter until January 1, 2009, when a final installment will pay the remaining amount in full.

64,930  
19,568,404  
(121,366)  
19,447,038  
(1,826,691)  
\$ 17,620,347

Less: unamortized discount on 12% subordinated debt

Less: current portion of long-term debt

Aggregate maturities of long-term debt for the years subsequent to December 31, 2004 are as follows:

|            |                      |
|------------|----------------------|
| 2005       | \$ 1,826,691         |
| 2006       | 2,776,181            |
| 2007       | 2,476,955            |
| 2008       | 1,978,338            |
| 2009       | 1,044,242            |
| Thereafter | <u>9,344,631</u>     |
|            | <u>\$ 19,447,038</u> |

On November 1, 2002, in connection with the closing of the 12% subordinated debt, the lenders acquired an aggregate membership interest of 27.6% of the Company. The \$121,366 represents the unamortized portion of the original \$212,267 amount that was assigned to the membership interest and is being amortized to interest expense over five years.

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20. NOTES PAYABLE – GREENTECH PANELS, L.L.C.: (Continued)

The restructure agreement, dated October 31, 2004, was approved on November 9, 2004, by the managing members of the Company, along with the primary lender, AmSouth Bank, and the subordinated debt holders. In accordance with the agreement, AmSouth Bank waived the defaults present as of October 31, 2004, relating to the Company's lack of compliance with various financial covenants required in the primary loan agreement dated November 27, 2002. In addition, the subordinated debt holders agreed to restructure the subordinated debt repayment schedule, by consolidating, amending and restating subordinated notes in effect prior to October 31, 2004, the effective date of the restructure agreement.

Interest incurred on all indebtedness amounted to \$1,614,365 in 2004. Interest of \$37,932 has been capitalized and included as a component of property and equipment during 2004 prior to the beginning of operations in April of 2004.

21. INTEREST RATE SWAPS:

The Fund uses interest rate swaps as a hedge against its investment in the Fletcher Income Arbitrage Fund. Under this agreement, the Fund has agreed to pay interest to the counterparty on a notional principal amount at a floating rate indexed to LIBOR, and receive interest at a floating rate indexed to Lehman Brothers U.S. Aggregate index. The amounts of interest exchanged are calculated on the basis of notional principal amounts. Such interest rate swaps are designated and qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The Fund assumed no ineffectiveness in the respective hedging relationships. Any gain or loss on the interest rate swap was offset by the expected future cash flows on the mutual fund.

Information on the interest rate swap is as follows:

|                         |   |
|-------------------------|---|
| Notional amount         | \$10,000,000  |
| Receiving interest rate | Lehman Brothers U.S.<br>Aggregate Index   |
| Paying interest rate    | LIBOR plus 0.55%  |
| Effective date          | March 15, 2003  |
| Termination date        | The earlier of April 1, 2005 or the last day<br>of any calculation period provided fifteen<br>days written notice |

The net income of the interest rate swap included in investment income is \$273,463.

The Fund is exposed to credit loss in the event of nonperformance by the swap counterparty; however, the Fund does not currently anticipate nonperformance by the counterparty.

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22. GOING CONCERN – GREENTECH PANELS, L.L.C.:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of Greentech Panels, L.L.C. (the Company) as a going concern. As discussed in Note 20, the Company negotiated an agreement to restructure its debt obligations with its primary lender and subordinated debt holders during 2004. However, sale revenues must increase dramatically for the Company to avoid continuing difficulty in meeting these obligations as currently restructured.

Management is negotiating with certain existing members to continue to secure additional working capital until the Company can generate positive cash flows from operations. Management believes that actions presently being taken will provide the opportunity for the Company to continue as a going concern; however, there is no assurance this will occur.

23. CONTINGENT LIABILITIES – GREENTECH PANELS, L.L.C.:

During 2004, Greentech Panels, L.L.C. (The Company) was contacted by state and local tax authorities relating to possible sales and use tax owed on machinery and equipment purchased during the construction period of the plant. Company management has entered into discussions with the state and local tax authorities concerning the applicability of certain exclusions available to manufacturing companies located and doing business in Louisiana. Although potentially significant, no provision has been made in the accompanying financial statements for any additional sales and use taxes since the liability cannot be reasonably estimated or the ultimate exposure to the Company determined.

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STATEMENT OF CHANGES IN RESERVE BALANCES - NEW SYSTEM  
FOR THE YEAR ENDED DECEMBER 31, 2004

|  | Pension<br>Reserve    | Annuity<br>Savings   | DROP                 | PLOP                | Pension<br>Accumulation | Surplus<br>(Unfunded)<br>Actuarial<br>Liability | Total                 |
|--|-----------------------|----------------------|----------------------|---------------------|-------------------------|---|-----------------------|
| BALANCES, JANUARY 1, 2004,<br>as previously reported | \$ 115,875,912        | \$ 16,937,002        | \$ 9,967,243         | \$ 3,671,857        | \$ 42,840,015           | \$ (3,188,833)                                  | \$ 186,103,196        |
| Prior period adjustment                              | -                     | -                    | -                    | 720,236             | -                       | (720,236)                                       | -                     |
| Consolidation of subsidiaries                        | -                     | -                    | -                    | -                   | (1,063,585)             | -   | (1,063,585)           |
| BALANCES, JANUARY 1, 2004, as restated               | <u>115,875,912</u>    | <u>16,937,002</u>    | <u>9,967,243</u>     | <u>4,392,093</u>    | <u>41,776,430</u>       | <u>(3,909,069)</u>                              | <u>185,039,611</u>    |
| REVENUES AND TRANSFERS                               |                       |                      |                      |                     |                         |   |                       |
| Contributions:                                       |                       |                      |                      |                     |                         |   |                       |
| Member   | -                     | 1,019,897            | -                    | -                   | -                       | -   | 1,019,897             |
| Employer   | -                     | -                    | -                    | -                   | 7,449,240               | -   | 7,449,240             |
| Fire insurance rebate                                | -                     | -                    | -                    | -                   | 605,102                 | -   | 605,102               |
| Interest on accumulated savings                      | -                     | 537,861              | -                    | -                   | -                       | -   | 537,861               |
| Net income from investments                          | -                     | -                    | -                    | -                   | -                       | -   | -                     |
| and other sources                                    | -                     | -                    | -                    | -                   | 18,789,848              | -   | 18,789,848            |
| Transfers from annuity savings                       | 1,784,755             | -                    | -                    | -                   | -                       | -   | 1,784,755             |
| Pensions transferred from pension reserve            | -                     | -                    | 3,698,743            | 2,410,825           | -                       | -   | 6,109,568             |
| Actuarial transfers                                  | 38,322,321            | -                    | -                    | -                   | -                       | 11,428,534                                      | 49,750,855            |
| Total revenues                                       | <u>40,107,076</u>     | <u>1,557,758</u>     | <u>3,698,743</u>     | <u>2,410,825</u>    | <u>26,844,190</u>       | <u>11,428,534</u>                               | <u>86,047,126</u>     |
| EXPENDITURES AND TRANSFERS                           |                       |                      |                      |                     |                         |   |                       |
| Retirement benefits paid                             | 9,339,481             | -                    | 1,001,946            | 1,022,801           | -                       | -   | 11,364,228            |
| Refunds to members                                   | -                     | 33,894               | -                    | -                   | -                       | -   | 33,894                |
| Transfers to pension reserve                         | -                     | 1,784,755            | -                    | -                   | -                       | -   | 1,784,755             |
| Pensions transferred to DROP                         | 3,698,743             | -                    | -                    | -                   | -                       | -   | 3,698,743             |
| Pensions transferred to PLOP                         | 2,410,825             | -                    | -                    | -                   | -                       | -   | 2,410,825             |
| Death benefits                                       | 9,000                 | -                    | -                    | -                   | -                       | -   | 9,000                 |
| Transfers to other retirement systems                | -                     | 32,528               | -                    | -                   | 83,107                  | -   | 115,635               |
| Interest transferred to                              |                       |                      |                      |                     |                         |   |                       |
| annuity savings                                      | -                     | -                    | -                    | -                   | 537,861                 | -   | 537,861               |
| Administrative expenses                              | -                     | -                    | -                    | -                   | 367,781                 | -   | 367,781               |
| Actuarial transfers                                  | -                     | -                    | -                    | -                   | 49,750,855              | -   | 49,750,855            |
| Total expenditures                                   | <u>15,458,049</u>     | <u>1,851,177</u>     | <u>1,001,946</u>     | <u>1,022,801</u>    | <u>50,739,604</u>       | <u>-</u>  | <u>70,073,577</u>     |
| NET INCREASE (DECREASE)                              | <u>24,649,027</u>     | <u>(293,419)</u>     | <u>2,696,797</u>     | <u>1,388,024</u>    | <u>(23,895,414)</u>     | <u>11,428,534</u>                               | <u>15,973,549</u>     |
| BALANCES - DECEMBER 31, 2004                         | <u>\$ 140,524,939</u> | <u>\$ 16,643,583</u> | <u>\$ 12,664,040</u> | <u>\$ 5,780,117</u> | <u>\$ 17,881,016</u>    | <u>\$ 7,519,465</u>                             | <u>\$ 201,013,160</u> |

FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
STATEMENT OF CHANGES IN RESERVE BALANCES - OLD SYSTEM  
FOR THE YEAR ENDED DECEMBER 31, 2004

|  | Pension<br>Reserve | Annuity<br>Savings | DROP         | PLOP       | Pension<br>Accumulation | Unfunded<br>Actuarial<br>Liability | Total          |
|--|--------------------|--------------------|--------------|------------|-------------------------|------------------------------------|----------------|
| BALANCES, JANUARY 1, 2004                        | \$ 171,571,873     | \$ -               | \$ 2,814,729 | \$ 735,431 | \$ -                    | \$ (65,161,110)                    | \$ 109,960,923 |
| REVENUES AND TRANSFERS:                          |                    |                    |              |            |                         |                                    |                |
| Contributions:                                   |                    |                    |              |            |                         |                                    |                |
| Fire insurance rebate                            | -                  | -                  | -            | -          | 605,102                 | -                                  | 605,102        |
| Net income from investments<br>and other sources | -                  | -                  | -            | -          | 9,325,755               | -                                  | 9,325,755      |
| Pensions transferred from<br>pension reserve     | -                  | -                  | 450,097      | 235,691    | -                       | -                                  | 685,788        |
| Actuarial transfers                              | 11,507,765         | -                  | -            | -          | -                       | -                                  | 11,507,765     |
| Total revenues                                   | 11,507,765         | -                  | 450,097      | 235,691    | 9,930,857               | -                                  | 22,124,410     |
| EXPENDITURES AND TRANSFERS:                      |                    |                    |              |            |                         |                                    |                |
| Retirement benefits paid                         | 17,300,621         | -                  | 143,547      | 90,402     | -                       | -                                  | 17,534,570     |
| Pensions transferred to DROP                     | 450,097            | -                  | -            | -          | -                       | -                                  | 450,097        |
| Death benefits                                   | 69,000             | -                  | -            | -          | -                       | -                                  | 69,000         |
| Pensions transferred to PLOP                     | 235,691            | -                  | -            | -          | -                       | -                                  | 235,691        |
| Administrative expenses                          | -                  | -                  | -            | -          | 505,337                 | -                                  | 505,337        |
| Actuarial transfers                              | -                  | -                  | -            | -          | 9,425,520               | 2,082,245                          | 11,507,765     |
| Total expenditures                               | 18,055,409         | -                  | 143,547      | 90,402     | 9,930,857               | 2,082,245                          | 30,302,460     |
| NET INCREASE (DECREASE)                          | (6,547,644)        | -                  | 306,550      | 145,289    | -                       | (2,082,245)                        | (8,178,050)    |
| BALANCES - DECEMBER 31, 2004                     | \$ 165,024,229     | \$ -               | \$ 3,121,279 | \$ 880,720 | \$ -                    | \$ (67,243,355)                    | \$ 101,782,873 |

FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
SCHEDULES OF INVESTMENTS  
DECEMBER 31, 2004

|   | <u>PAR VALUE OF BONDS</u> |                       | <u>ORIGINAL COST</u>  |                       | <u>MARKET VALUE</u>   |                       |
|---|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   | <u>New<br/>System</u>     | <u>Old<br/>System</u> | <u>New<br/>System</u> | <u>Old<br/>System</u> | <u>New<br/>System</u> | <u>Old<br/>System</u> |
| Cash equivalents                                | \$ -                      | \$ -                  | \$ 11,066,250         | \$ 9,161,832          | \$ 11,068,306         | \$ 9,162,404          |
| Bonds:  |                           |                       |                       |                       |                       |                       |
| U.S. Government<br>and Agency Issues            | 100,000                   | -                     | 59,067                | -                     | 61,290                | -                     |
| Corporate bonds                                 | 13,339,180                | -                     | 12,392,581            | -                     | 13,279,770            | -                     |
| Foreign bonds                                   | 1,930,000                 | -                     | 1,881,176             | -                     | 2,026,844             | -                     |
| Stocks  | -                         | -                     | 30,512,790            | -                     | 38,782,299            | -                     |
| Mutual funds                                    | -                         | -                     | 37,072,466            | -                     | 39,945,303            | -                     |
| Notes receivable                                | -                         | -                     | 20,105,799            | -                     | 20,105,799            | -                     |
| Investment in limited<br>liability corporations | -                         | -                     | 12,822,757            | -                     | 16,130,471            | -                     |
| Investment in corporation                       | -                         | -                     | 8,507,137             | -                     | 8,440,518             | -                     |
| Investment in trust                             | -                         | -                     | 1,062,691             | -                     | 1,063,196             | -                     |
| Investment in real estate                       | -                         | -                     | 381,000               | -                     | 381,000               | -                     |
| Investment in partnerships                      | -                         | -                     | 24,357,183            | -                     | 26,655,656            | -                     |
| Manufacturing plant-<br>Greentech Panels        | -                         | -                     | 27,110,186            | -                     | 27,110,186            | -                     |
| Real estate-Lakewood                            | -                         | -                     | 7,129,013             | -                     | 7,824,533             | -                     |
|   |                           |                       | <u>\$ 194,460,096</u> | <u>\$ 9,161,832</u>   | <u>\$ 212,875,171</u> | <u>\$ 9,162,404</u>   |

FIREFIGHTERS' PENSION AND RELIEF FUND  
 OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
 SUPPLEMENTARY INFORMATION  
 SCHEDULES OF ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2004

|                                | <u>New<br/>System</u> | <u>Old<br/>System</u> |
|--------------------------------|-----------------------|-----------------------|
| Accounting, auditing and legal | \$ 17,756             | \$ 228,907            |
| Actuary fees                   | -                     | 32,910                |
| Depreciation                   | -                     | 38,429                |
| Employee benefits              | -                     | 3,670                 |
| Insurance                      | -                     | 124,540               |
| Interfund allocation           | 350,000               | (350,000)             |
| Office supplies and printing   | -                     | 14,478                |
| Other                          | 25                    | 11,047                |
| Payroll and payroll taxes      | -                     | 234,606               |
| Pension seminars and education | -                     | 93,043                |
| Postage                        | -                     | 10,188                |
| Professional - medical         | -                     | 10,000                |
| Rent                           | -                     | 45,969                |
| Telephone                      | <u>-</u>              | <u>7,550</u>          |
| TOTAL                          | <u>\$ 367,781</u>     | <u>\$ 505,337</u>     |



FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
SCHEDULES OF CONTRIBUTIONS  
DECEMBER 31, 1999 THROUGH 2004

| <u>YEAR</u> | <u>NEW SYSTEM</u>  |  |
|-------------|--|--|
|             | Actuarial<br>Required<br>Contributions<br>Employer and<br>Other<br>Sources | Percent<br>Contributed<br>Employer and<br>Other<br>Sources |
| 1999        | \$ 3,518,964   | 100.00 %   |
| 2000        | 2,918,018  | 116.79   |
| 2001        | 3,013,446  | 100.00   |
| 2002        | 3,969,950  | 100.00   |
| 2003        | 4,837,929  | 107.00   |
| 2004        | 7,449,235  | 108.12   |

| <u>YEAR</u> | <u>OLD SYSTEM</u>  |  |
|-------------|--|--|
|             | Actuarial<br>Required<br>Contributions<br>Employer and<br>Other<br>Sources | Percent<br>Contributed<br>Employer and<br>Other<br>Sources |
| 1999        | \$ 18,978,384  | 92.87 %  |
| 2000        | 19,035,820 *   | 93.75  |
| 2001        | 21,436,565 **  | 84.29  |
| 2002        | 20,757,831 ***   | 92.05  |
| 2003        | 20,768,067 ****  | 88.30  |
| 2004        | 20,397,642 *****   | 102.97   |

\* For actuarial purposes the contributions received differs from the audited contribution income. The audited amount includes contributions receivable of \$152,754,748, in accordance with generally accepted accounting principles. For actuarial purposes, the receivable is not deemed an asset of the Fund.

\*\* The percent contributed employer includes \$17,167,452 received from the trust which reduced the contributions receivable.

\*\*\* The percent contributed employer includes \$18,080,760 received from the trust which reduced the contribution receivable.

\*\*\*\* The percent contributed employer includes \$17,205,888 received from the trust which reduced the contribution receivable.

\*\*\*\*\* The percent contributed employer includes \$20,397,636 received from the trust which reduced the contribution receivable.

FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS - OLD SYSTEM  
DECEMBER 31, 1999 THROUGH 2004

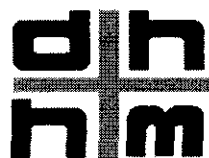
| OLD SYSTEM                     |                                  |  |                           |                 |                    |  |
|--------------------------------|----------------------------------|--|---------------------------|-----------------|--------------------|--|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Valuation<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL As A<br>Percentage<br>Of Covered<br>Payroll |
| December 31, 1999              | \$ 9,422,770                     | \$ 166,889,660                             | \$ 157,466,890            | 5.65 %          | \$ 130,608         | 120,565 %  |
| December 31, 2000 *            | 9,424,836                        | 172,456,220                                | 163,031,384               | 5.47            | 44,040             | 370,189  |
| December 31, 2001 *            | 10,264,823                       | 173,378,296                                | 163,113,473               | 5.92            | -                  | N/A  |
| December 31, 2002 *            | 11,019,885                       | 171,162,515                                | 160,142,630               | 6.44            | -                  | N/A  |
| December 31, 2003 *            | 11,791,787                       | 175,122,033                                | 163,330,246               | 6.73            | -                  | N/A  |
| December 31, 2004 *            | 15,141,950                       | 169,026,228                                | 153,884,278               | 8.96            | -                  | N/A  |

\*The actuarial valuation of assets differs from the audited net assets held in trust for pension benefits. The audited amount includes contributions receivable of \$86,640,923, \$98,169,136, \$97,752,824, \$128,406,475, and \$152,754,748 for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively, in accordance with accounting principles generally accepted in the United States of America. For actuarial purposes, the receivable is not deemed an asset of the Fund.

FIREFIGHTERS' PENSION AND RELIEF FUND  
OF THE CITY OF NEW ORLEANS AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
NOTES TO SCHEDULES OF CONTRIBUTIONS AND  
SCHEDULE OF FUNDING PROGRESS  
DECEMBER 31, 1999 THROUGH 2004

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

|                                |  |
|--------------------------------|--|
| Valuation Date                 | December 31, 2004  |
| Actuarial Cost Method          | New System: The Aggregate Level Normal Cost Method.<br><br>Old System: Entry Age Normal Cost Method.   |
| Asset Valuation Method         | New System:<br>Market value adjusted to average realized and unrealized capital gains over a three year period.<br><br>Old System: Market value.   |
| Actuarial Assumptions:         |  |
| Investment Rate of Return      | 7.5%   |
| Projected Salary Increases     | 5%   |
| Cost of Living Adjustments     | The present value of future retirement benefits is based on benefits currently being paid by the Fund and includes previously granted cost of living increases. The present values do not include provisions for potential future increases not yet authorized by the Board of Trustees. |
| Amortization Method:           | The amortization period is for a specific number of years with payments at a level amount.   |
| Remaining Amortization Period: | 8 years  |



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

June 7, 2005

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

We have audited the financial statements of the Firefighters' Pension and Relief Fund of the City of New Orleans and subsidiaries as of and for the year ended December 31, 2004, and have issued our report thereon dated June 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

### Internal Control Over Financial Reporting

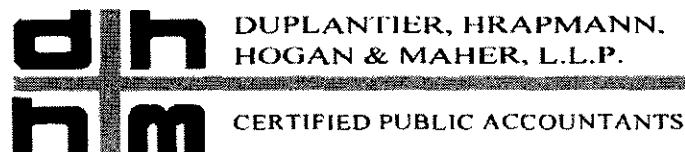
In planning and performing our audit, we considered the Firefighters' Pension and Relief Fund of the City of New Orleans and subsidiaries' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Firefighters' Pension and Relief Fund of the City of New Orleans and subsidiaries' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is noted below:

The Fund does not have any procedures in place to perform an independent review for the completeness of interest and dividend income. Procedures should be in place to determine that all investment income is properly received and recorded. If the Fund does not perform a review of income received on investments, it risks the possibility of loss of funds. We recommend the Fund develop and implement procedures to perform this independent review. The independent review of interest and dividends could be accomplished by either having the money managers perform the review and provide the Fund with certification that all interest and dividends that should have been received were received; or by reviewing the trust statements and performing an overall test.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the use of the City Council, Board of Trustees, and the Office of the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Duplantier, Krapmann, Hogan & Maher, LLP*



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June 7, 2005

Legislative Auditor  
Engagement Processing  
Post Office Box 94397  
Baton Rouge, LA 70804-9373

Dear Sir or Madam:

**SCHEDULES AND DATA COLLECTION FORM**  
**SECTION 1: SUMMARY OF AUDITOR'S REPORTS**

**A. FINANCIAL STATEMENT AUDIT OPINION:**

We have audited the financial statements of the Firefighters Pension and Relief Fund of the City of New Orleans as of and for the year ended December 31, 2004 and have issued our report thereon dated June 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit as of December 31, 2004 resulted in an unqualified opinion.

**B. REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**Internal Control:**

Material weaknesses – None noted

Reportable conditions – See current year finding 04-01 below.

**Compliance:**

Noncompliance material to financial statements - None noted

**C. FEDERAL AWARDS**

N/A

## SECTION 2: FINANCIAL STATEMENT FINDINGS

### A. CURRENT YEAR FINDINGS:

#### 04-01 Interest and Dividend Income

The Fund does not have any procedures in place to perform an independent review for the completeness of interest and dividend income. Procedures should be in place to determine that all investment income is properly received and recorded. If the Fund does not perform a review of income received on investments, it risks the possibility of loss of funds. We recommend the Fund develop and implement procedures to perform this independent review. The independent review of interest and dividends could be accomplished by either having the money managers perform the review and provide the Fund with certification that all interest and dividends that should have been received were received; or by reviewing the trust statements and performing an overall test.

### B. PRIOR YEAR FINDINGS (OTHER MATTERS):

#### 03-01 Interest and Dividend Income

The Fund did not have any procedures in place to perform an independent review for the completeness of interest and dividend income. Procedures should be in place to determine that all investment income is properly received and recorded. If the Fund does not perform a review of income received on investments, it risks the possibility of loss of funds. We recommended that the Fund develop and implement procedures to perform this independent review.

During the current year, it was noted that an independent review for completeness of interest and dividend income was not performed, as reported in Finding 04-01.

#### 03-02 DROP Interest Rate

L.R.S. 11:3385.1 states that upon completion of participation in DROP, the individual account of any member who continues employment will earn interest on his account based on a five-year rolling average of the composite rate of return of the Fund, less a two percent administrative fee. During the year ended December 31, 2003, we noted that the Fund had reduced the administrative fee to one percent. Reducing the administrative fee to 1% is in violation of L.R.S. 11:3385.1. We recommended that management review all applicable statutes to ensure compliance with all requirements.

The finding was resolved in the current year.

**BOARD OF TRUSTEES  
OF THE  
FIRE FIGHTERS PENSION AND RELIEF FUND**

FOR THE CITY OF NEW ORLEANS

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June 30, 2005

Legislative Auditor  
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Dear Sir or Madam,

Following is the Corrective Action Plan for the audit findings reported in the management letter for the Firefighter' Pension and Relief Fund for the City of New Orleans for the year ended December 31, 2004:


04-01

INTEREST AND DIVIDEND INCOME

Based on the advice of our Consultant, our Custodial Bank and our Accountant, the Board feels that this would be an unnecessary expense. Bank One, Our Custodial Bank, our Consultant and our accountant have put into place an internal system of checks and balances on the interest and dividends paid on our Investment accounts, that the Board feel is sufficient. This procedure is consistent with federally approved reporting and audit requirements for ERISA- regulated Pension Funds.

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

Very Truly Yours,



Richard J. Hampton, Jr.  
CEO/Secretary - Treasurer