

Comprehensive Annual Financial Report
of the
Charlotte Firefighters' Retirement System -
A Component Unit of the
City of Charlotte, North Carolina



For the Fiscal Year Ended
June 30, 2004

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM –
A COMPONENT UNIT OF THE
CITY OF CHARLOTTE, NORTH CAROLINA**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

BOARD OF TRUSTEES

Kurt R. Hollar, Chairman of the Board, Citizen Appointee
James E. Burke, Vice Chairman, Elected Member
W. Carey Odom, Treasurer, Ex-Officio (Retired April 1, 2004)
Bobby W. Davis, Secretary, Elected Retiree
Greg C. Gaskins, Trustee, Ex-Officio
Angela R. Hubbard, Citizen Appointee
Alan Scott King, Trustee, Elected Member
Timothy D. Mayes, Trustee, Ex-Officio
Alan K. Middleton, Elected Member
F. Traylor Renfro, Trustee, Citizen Appointee
Allen J. Stewart, Trustee, Citizen Appointee

Prepared by the Charlotte Firefighters' Retirement System Staff
Barbara J. Avard, Administrator
Patricia E. Adams, Retirement Analyst

WHERE TO WRITE FOR INFORMATION

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**Charlotte Firefighters' Retirement System
Charlotte, North Carolina**

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INTRODUCTORY SECTION

The Introductory Section includes a letter of transmittal that includes the responsibilities of the Board of Trustees and its staff, the history, administration and operations of the retirement system and significant activities of the year being reported.

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

428 East Fourth Street • Suite 205 • Charlotte, North Carolina 28202 • 704/336-4431 • Fax 704/336-6101

December 20, 2004

Honorable Board of Trustees,
Members of the City Council of Charlotte, North Carolina
and Charlotte Firefighters' Retirement System Participants:

The Component Unit Financial Report ("Report") of the Charlotte Firefighters' Retirement System (CFRS) for the fiscal year ended June 30, 2004, is submitted herewith. The Board of Trustees and its staff are responsible for the preparation and presentation of the financial information and all other data contained herein, and believe that the Report is based on accounting principles generally accepted in the United States of America, presents fairly and consistently the CFRS's financial position and results of operations and conforms to the standards of governmental accounting and financial reporting principles as promulgated by the Governmental Accounting Standards Board. The Report consists of five sections: (1) an Introductory Section which contains this Letter of Transmittal and general information regarding the system; (2) the Financial Section consisting of the Independent Auditors' Report, audited financial statements and the accompanying notes to financial statements, and required supplementary information which includes Management's Discussion and Analysis pursuant to GASB 34; (3) the Investment Section which contains supportive documentation related to the System's investments; (4) the Actuarial Section which contains the consulting actuary's opinion and the results of the annual actuarial valuation report, as of July 1, 2004; and (5) the Statistical Section which contains financial trends and information on investment policy and performance results and other statistical information which may be of interest to those reading this report .

HISTORY

The CFRS was organized pursuant to Chapter 926 of the 1947 Session Laws, as amended, of the State of North Carolina. The CFRS was established on the fifth day of April 1947, for the purpose of providing retirement and permanent and total disability benefits to the uniformed members of the Fire Department of the City of Charlotte. The stated purpose of the CFRS was amended on the 29th day of June 1987, to provide survivor benefits to named beneficiaries as an added objective. In 2002, the CFRS Act was amended to provide for acceptance of various rollover funds for member purchases of prior military, prior government and withdrawn service credit. In 2003, a new Letter of Determination from the Internal Revenue Service was received affirming the tax-qualified status of the CFRS.

ADMINISTRATION OF THE SYSTEM

The administration and responsibility for the proper operation of the CFRS is vested with the Board of Trustees of the Charlotte Firefighters' Retirement System, which is comprised of the following trustees as defined by the Charlotte Firefighters' Retirement System Act (Act): (a) a Mecklenburg County resident who is appointed by the Resident Judge of the Superior Court of Mecklenburg County as Chairman of the Board for a three year term; (b) three Mecklenburg County residents who are appointed by the Resident Judge of the Superior Court of Mecklenburg County as trustees for three year staggered terms which results in the appointment of one trustee each year; (c) the City Manager for the City of Charlotte, or her designated trustee, who serves by virtue of her position; (d) the City Finance Director, or his designated trustee, who serves by virtue of his position; (e) the City Treasurer who serves by virtue of his position; (f) three members of the Charlotte Firefighters' Retirement System who are elected by the membership of the system as trustees for three year staggered terms which results in the election of one trustee each year; and (g) one retiree of the Charlotte Firefighters' Retirement System who is elected by the retirees of the system for a term of three years. The Board of Trustees are listed on the title page of this report.

COMMITTEES

The Board of Trustees operationally functions under a committee structure. An investment committee and a benefits committee are annually appointed by the Chairman of the Board to monitor, fact-find and recommend actions for the Board's consideration. Although not required, the committees have generally been comprised of at least three trustees with one committee member being a citizen appointee, another an elected member, and the other an ex-officio trustee. During the past fiscal year, W. Carey Odom, Treasurer, served as the Investment Committee Chairman until his retirement on April 1, 2004. Deputy Fire Chief James E. Burke, Elected Member Trustee served as Investment Committee Chairman for the balance of the fiscal year. Bobby W. Davis, Elected Retiree Trustee, served as Benefits Committee Chairman.

PROFESSIONAL SERVICES

The Board of Trustees employs the services of various professionals to aid it in its fiduciary responsibility for the effective and prudent management of the system. These professionals include: (a) a full-time Administrator who is responsible for the administration and coordination of all system operations and activities in accordance with the rules and regulations of the Act and subject to the policies and direction of the Board of Trustees and supervisor of system staff; (b) the City Attorney and his staff serve as the legal advisor to the Board of Trustees; (c) a consulting actuary who is employed by the City of Charlotte to perform such studies and evaluations of the Charlotte Firefighters' Retirement System as may be necessary and/or desirable in connection with the administration of the system (the actuary prepares an Annual Actuarial Valuation to determine the adequacy of the funding of the retirement benefit liabilities accrued by system members); (d) an independent auditor engaged by the Board of Trustees on an annual basis to determine whether the financial statements present fairly, in all material respects, the financial position of the system and the results of its yearly operations in conformity with generally accepted accounting principles; (e) a

Medical Board appointed by the Board of Trustees to review and evaluate medical evidence and propose recommendations regarding disability retirements; and (f) investment management counselors employed to invest the system's assets consistent with the objectives and direction of the Board of Trustees. The Board of Trustees may employ other professionals with expertise in various fields for specific services as deemed necessary.

The system's investment performance is monitored on a continuous basis to insure that the objectives and direction of the Board of Trustees are being fulfilled. The investment consulting firm of Callan Associates, Inc., has been employed since 1987 to assist the Board of Trustees to fulfill this obligation and provide other investment consulting services. All of the advisors, consultants and providers of professional services to the system are listed on *Page 12*. Information related to investment fees and commissions may be found beginning on *Page 52*.

FINANCIAL REPORTING

An annual report of the financial and actuarial condition of the CFRS is prepared and submitted to the City Council. The annual report to City Council contains, but is not limited to, the auditors' opinion, statements contained in the auditors' report, a summary of the annual actuarial valuation and the actuary's valuation certification. Additionally, a copy of the annual report to City Council is provided to each of the fire stations and fire department administrative offices of the City of Charlotte. The report is also provided to all retired participants.

The Government Finance Officers Association of the United States and Canada (G.F.O.A.) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Charlotte Firefighters' Retirement System for its comprehensive annual financial reports for the fiscal years ended June 30, 1995 – 2001 and June 30, 2003. (The CFRS did not submit its June 30, 2002 report to the G.F.O.A.) The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report (CAFR) meets the Certificate of Achievement program requirements and we will submit the June 30, 2004 report to the G.F.O.A. for consideration to determine its eligibility for another certificate.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

MARKET OUTLOOK

The Past Year

The volatility experienced in global financial markets during Fiscal 2003 continued into Fiscal 2004 but performance improved during the course of the year. Investors continued to be challenged by questions of corporate credibility, corporate

earnings, high unemployment, the conflict in Iraq and continued terrorism. In addition, the upcoming presidential election combined with slower than expected economic growth, rising crude oil prices to historic highs and anticipated interest rate hikes by the Fed all contributed to these volatile markets and investor caution.

Two additional reductions in the Fed funds rate during the previous fiscal year brought the rate to an unprecedented 1.0%, the lowest rate in 45 years. This rate was maintained until the very end of Fiscal Year 2004. The Federal Reserve raised the Fed funds rate by 25 basis points, to 1.25% in June – the first increase in more than four years. The move was spurred by concerns over inflation and higher than expected employment numbers during April and May. The Fed's tightening hurt U.S. Treasuries, which declined during this quarter. This rate increase was the first of several additional increases implemented in the next fiscal year.

The onset of the war in Iraq and initial apparent success by the U.S. boosted consumer confidence radically and major equity market indices experienced gains in excess of 10% at the end of the prior fiscal year. Broad based gains continued in Fiscal 2004, as growth, value, large and small stocks all performed well. Small cap stocks surged ahead of large cap for several quarters. In the fixed income, bonds received a boost in the third quarter of the fiscal year due to the sluggish job market. Of all sectors in the S&P 500, consumer staples remained strong while technology came in last among the benchmark's industrial groups.

As the end of the fiscal year approached, all three major indices finished the quarter in the black and small cap stocks finally took a back seat to larger cap stocks. The Lehman Aggregate Index experienced its worst quarterly performance in more than a decade. The CFRS ended the year with returns of 18.11% compared to its composite benchmark returns of 16.50%. Its longer-term relative and absolute results continue to be positive though below its assumed investment return rate of 7.75%. It ranked in the twelfth percentile of the Public Plan Sponsor Database for the year ended June 30, 2004. Most public retirement systems experienced similar volatility and median returns were in the 14-15% range. Professionals with many years of experience in the public pension arena continue their commitment to and belief in diversification of assets as the primary success factor in these volatile years. The CFRS also believes its diversified asset allocation will continue to benefit it over the long term.

Going Forward

The global economic and currency problems as well as ongoing conflict in Iraq and the belief that the U.S. would have a long-term presence continued to cause concern into fiscal year 2005. U.S. equity markets closed the first quarter with their worst quarterly performance since early 2003. Oil futures in the \$50 a barrel range and a tightening monetary policy on the heels of the presidential election contributed to the market downturn. Growth stocks once again fell out of favor and investors shunned tech stocks. In a dramatic reversal, the Lehman Aggregate turned in its best return in two years, gaining 3.20% in the first quarter of fiscal year 2005. The strength in U.S. Treasuries followed Fed Chairman Alan Greenspan's comments that the economy had hit "a soft patch". Corporate bonds topped all other fixed income sectors that quarter with a return of 4.21%. The Federal Reserve has indicated it will monitor the economy carefully and will continue to tighten its monetary policy if it believes it necessary. Only

time will tell. Successful elections in Iraq and some sign of improvement in the region will be a significant factor.

The Charlotte Firefighters' Retirement System follows a strategic asset allocation approach whereby it recognizes that markets move in cyclical patterns and that timing these market changes is an elusive skill. Consequently, the success of the Charlotte Firefighters' Retirement System is tied to its long term commitment to a well diversified investment approach across several asset classes and management styles. In light of past returns using the existing asset allocation approach and with the belief that the global markets and the U.S. economy will continue a slow yet volatile improvement, we expect Fiscal 2004-2005 overall returns for the Charlotte Firefighters' Retirement System to be at or above its expected return rate of 7.75%.

MAJOR INITIATIVES

During the year, as its primary duty, the Investment Committee spent considerable time reviewing the performance of all existing managers. The Investment Committee continued discussions of benchmarks and spent several months revising the CFRS Policy Statement of Investment Goals, Objectives and Guidelines. This work included review of a domestic equity structure study completed by Callan Associates. The policy statement included a formalized watch list process and the recommendation to use the Russell group of indices for evaluation of future manager performance. These recommendations were presented to the Board in the last quarter of the fiscal year and approved.

The Investment Committee continued discussion and information gathering on the subject of securities litigation. The Committee met with several professionals to further learn about securities litigation monitoring and subsequently made a recommendation to the Board to engage a firm to perform monitoring services for the CFRS.

The Committee negotiated a new three-year agreement for custodian services with State Street Bank & Trust that was approved by the Board. Finally, the Committee began a review of the proxy voting policy at the close of the fiscal year and will make a recommendation in early fiscal year 2005.

Issues will continue to be examined on both a proactive and reactive basis to assure continued success as well as continued commitment to a well-diversified portfolio and strategic asset allocation.

After a very active fiscal 2003 in the benefits area the Benefits Committee was able to slow its pace somewhat during fiscal year 2004. However, after the incorporation into the Act of some of the provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the staff became very busy with education of members and processing in-service transfers for the purchase of prior military, government and withdrawn service.

The Benefits Committee continued discussion of various aspects of the disability retirement process. These discussions resulted in several revisions to disability applications. The Committee concluded its discussions concerning the coordination of benefits provision in *Section 22* the Act and developed an administrative procedure to

enforce this provision. This section refers to payments of workers' compensation that may be made concurrently with pension benefit payments under certain circumstances.

The Committee received information from the Administrator about a voluntary dental program available to state and local retirees through the North Carolina Retired Government Employees Association (NCRGEA) and authorized the Administrator to pursue extending the program to CFRS retirees. Through excellent cooperation with the NCRGEA and the program provider as well as the approval of the Board of Trustees these benefits were offered to retirees on a voluntary basis in January 2004.

Finally, the Benefits Committee received and discussed information on retiree medical coverage costs, taxation issues relating to medical coverage and pension benefits, a death verification audit completed in the last quarter of the fiscal year. Two recruit classes were conducted by the Fire Department during the year that added thirty-nine new members to the CFRS.

The Committee plans to review its legal, actuarial and medical service providers in the coming year. Two trustee elections will be conducted as well as work on a CFRS web site.

FINANCIAL INFORMATION

The CFRS's internal control structure is designed to provide reasonable, but not absolute, assurance for the safeguarding of assets against loss from theft or unauthorized use and to ensure the reliability and adequacy of the accounting records. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgment by management. Accounting data are maintained in a manner suitable for preparing financial reports in conformity with generally accepted accounting principles and for providing accurate and timely data to the City Council, Board of Trustees, participants of the retirement system, citizens and other interested parties.

Budgetary Controls

The North Carolina General Statutes require the adoption of an annual budget for all funds except those for which expenditures are authorized by project ordinance, fiduciary funds and internal service funds. The CFRS is a fiduciary fund and is therefore exempt from budgetary requirements. However, the Board of Trustees considers and adopts a budget for each current fiscal year of operations.

Accounting and Actuarial Systems

The financial reports of the CFRS are prepared in accordance with generally accepted principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets and liabilities, and revenues and expenses. Revenues and expenses are recorded when earned or incurred, regardless of collection or disbursement. Capital assets are recorded at cost and depreciated through charges to expense over the estimated useful lives of the assets. The system is funded on the entry age normal cost method, which means that the annual contribution is comprised of two elements which

are the current or "normal" cost for the year and a contribution to reduce the unfunded accrued liability.

Revenues and Funding

Revenues essential to the sound funding of the CFRS flow from three sources:

Contributions by Members: A CFRS member contributes an amount equal to the member's compensation multiplied by the current contribution rate of 12.65%. These contributions are made on a tax-deferred basis. The contributions are posted to individual accounts for each member. The accumulated amount in each account is used for the member's benefit if he or she remains in service. If the member leaves service, he or she may withdraw the amount of his or her accumulated contribution. A member with five or more years of membership service receives interest on his or her contributions if a refund is requested. A member may, if he or she has five or more years of membership service, choose to elect a deferred annuity providing lifetime income commencing at age 60. Employee contributions accounted for 11.92% of the system's revenues for the last fiscal year.

Contributions by the City of Charlotte: The City of Charlotte matches the payroll contributions of the members. The City of Charlotte contributions accounted for 10.86% of the system's revenues for the 2004 fiscal year.

Investment Income: Investment income is the third source of system revenues and must be regarded as both a vital and major contributor to funding and assists the Board of Trustees and the City of Charlotte to provide for the future security of the system's participants. Statutorily, since 1947, the Board of Trustees has exercised responsibility for investing the system's portfolio in a prudent and discretionary manner. The Chairman of the Board appoints an Investment Committee that has the responsibility for oversight of the investment of system assets in accordance with the Policy Statement of Investment Goals, Objectives, and Guidelines as established by the Board of Trustees.

The reader of this report should note that year-to-year investment income variation is a function of appreciation and depreciation of stocks and the subsequent realization of gains or losses on the sale of investments and not necessarily reflective of investment results.

The bottom line for a retirement system is the level of funding. The better the level of funding, the larger the ratio of assets to liabilities accumulated and the greater the level of investment income potential. In Fiscal 2004, investment income accounted for 77.22% of total revenue. A more complete discussion of the CFRS revenues and expenditures may be found in the *Financial Section* beginning on *Page 17*.

Expenses

The primary expense of the CFRS relates to the purpose for which it was created, namely, the payment of benefits. Benefit payments to retired participants and refunds to terminated members were responsible for 97.62% of all system expenses, compared to 97.32% for the prior year. Nearly identical to the prior year, administrative costs and depreciation accounted for only 2.38% of system expenses for fiscal year 2004. A more detailed discussion of CFRS expenses may be found in the *Financial Section* beginning on *Page 17*.

The reader may also obtain additional information in *Management's Discussion and Analysis* beginning on *Page 19*.

OTHER INFORMATION

Independent Audit

The Charlotte Firefighters' Retirement System Act, a North Carolina statute, requires an annual audit by a certified public accountant. The Board of Trustees selected the independent certified public accounting firm of Cherry, Bekaert & Holland, L.L.P. to provide these services. The auditors' report on the financial statements and required supplementary information is included in the financial section of this report.

Acknowledgments

The compilation of this report is intended to provide complete and reliable information regarding the stewardship for the funds contributed by the members of the Charlotte Firefighters' Retirement System and the City of Charlotte.

Several individuals assisted with the preparation of this report and we wish to acknowledge their efforts and assistance: Patricia Adams, Retirement Analyst of CFRS; City Finance staff, Teresa Smith, Financial Accounting and Reporting Manager and Kathy Pond, City Finance Accountant, all contributed many hours to insure the quality and completeness of this report.

We hope that this year's report will be of interest to you and will be helpful in understanding, evaluating, and assuring the continued success of the Charlotte Firefighters' Retirement System.

Respectfully Submitted,



Kurt R. Hollar, Chairman of the Board



Barbara J. Avard, Administrator

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

CHARLOTTE, NORTH CAROLINA

BOARD OF TRUSTEES

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Alan K. Middleton, Trustee, Elected Member

F. Traylor Renfro, Trustee, Citizen Appointee

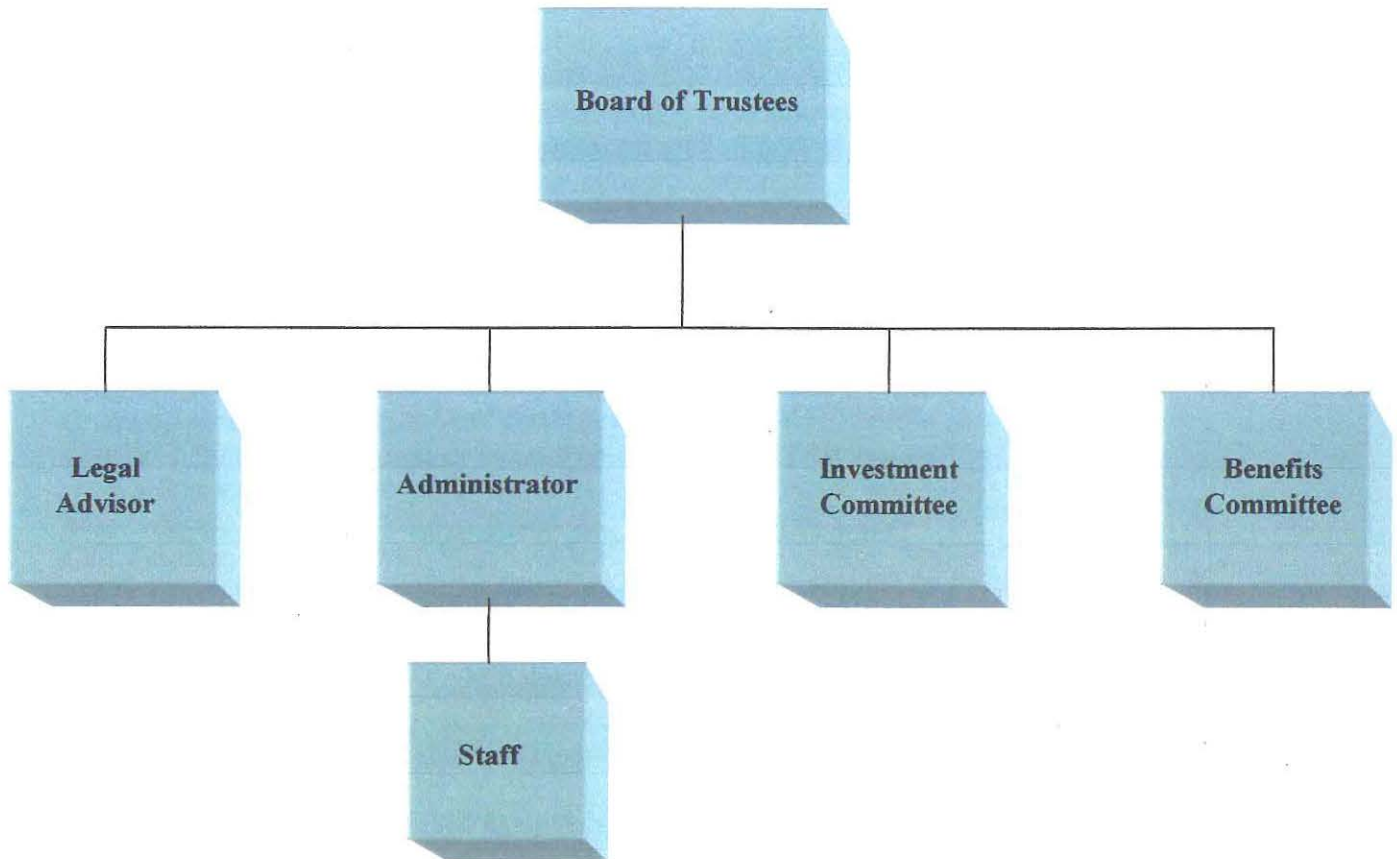
Allen J. Stewart, Trustee, Citizen Appointee

STAFF

Barbara J. Avard, Administrator

Patricia E. Adams, Retirement Analyst

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
ORGANIZATIONAL CHART**



Certificate of Achievement for Excellence in Financial Reporting

Presented to
Charlotte Firefighters'
Retirement System,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**PROFESSIONAL SERVICE PROVIDERS
TO THE
CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM**

ACTUARY

Mellon Human Resources & Investor Solutions
(formerly Buck Consultants)

CUSTODIAN BANK

State Street Bank and Trust Company, NA

INDEPENDENT AUDITORS

Cherry, Bekaert & Holland, L.L.P., Charlotte, North Carolina

INVESTMENT ADVISORS

Alliance Capital Management L.P., Domestic Equities
Banc of America Capital Management, Inc., Domestic Equities
Baring Asset Management, Inc., Non-U.S. Fixed Income
Barrow, Hanley, Mewhinney & Strauss, Inc., Core Plus Fixed Income
Boston Partners Asset Management, L.P., Domestic Equities
Cadence Capital Management, Domestic Equities
Essex Investment Management Company, L.L.C., Domestic Equities
Evergreen Investment Management Company, L.L.C., Domestic Equities
Investment Counselors of Maryland, Domestic Equities
Metropolitan Life Insurance Company, Real Estate
Morgan Stanley, Non-U.S. Equities
State Street Global Advisors, Domestic Fixed Income Index & Equities Index
T. Rowe Price International, Inc., Non-U.S. Equities

INVESTMENT CONSULTANT

Callan Associates, Inc.

MEDICAL ADVISORS

NorthEast Medical Center, Concord, North Carolina

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM SUMMARY OF PLAN PROVISIONS

1. Eligibility for Membership

Membership is mandatory for all employees of the Charlotte Fire Department who are subject to the provisions of the Civil Service Act.

2. Normal Service Retirement

A member may elect to retire at any time after attaining age 50 with 25 or more years of service, age 60 with 5 or more years of service or at any age with 30 or more years of service.

3. Normal Service Retirement Benefit

A member receives 2.6% of final average salary per year of credited service not to exceed the limit imposed by Section 415 of the IRS Code. Final average salary is defined as the average monthly pay during the highest paid consecutive 24 months during the final 60 months of service.

4. Early Retirement

A member may retire early before age 50 at any time after completion for 25 years of membership service.

5. Early Retirement Benefit

The early retirement benefit is calculated in the same manner as for normal service retirement, but reduced by .25% for each month the early retirement date precedes age 50.

6. Disability Retirement Benefits

(a) In Line of Duty No minimum age or service requirements. Disability retirement benefits are the greater of 78% of final average salary determined as of date of total and permanent disability incurred in the line of duty or 2.6% of final average salary times membership service. (b) Not In Line of Duty Payable in the event of total and permanent disability after 10 years of

service. Disability retirement benefit is 39% of final average salary, plus 1.95% of such salary for each year of service in excess of 10 years, maximum benefit not to exceed the limits imposed by Section 415 of the IRS Code determined as of date of disability.

7. Retirement Bonus Payment

A retiree may receive an annual bonus payment in the month of January following an annual actuarial valuation when the actuary recommends such a payment and provides the Board with a fiscal note which evaluates the effect of such a payment on the system's funded status. A retiree must have been retired for at least one year as of December 31 in order to be eligible for a bonus payment.

8. Benefit Upon Termination of Employment

(a) Less Than 5 Years Lump-sum distribution of member's contributions.
(b) 5 Or More Years Normal service retirement benefits payable at age 60 or lump sum distribution of member's contribution plus interest compounded at 4.0 % per plan year of participation.

9. Death Benefits

(a) Prior to Retirement Member's contributions, plus those made by City on his or her behalf, together with interest at 4.0 % per year, are payable to the named beneficiary in a lump sum or annuity. Under certain conditions, the beneficiary may elect to receive an actuarial equivalent monthly benefit under the 66 2/3% Joint and Survivor Option.
(b) After Retirement Pre-retirement death benefit as of date of retirement, less any retirement benefits already

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM SUMMARY OF PLAN PROVISIONS

received, is paid to retiree's named beneficiary.

10. Optional Benefits (Other Than Lifetime Benefits) All optional benefits are actuarially equivalent to lifetime retirement benefits.

Option 1 Reduced lifetime monthly benefit to member. If member dies within 10 years following retirement, benefit continues to the named beneficiary for balance of 10 year period.

Option 2 - 100% Joint & Survivor

Reduced monthly lifetime benefit which continues after retiree's death to the designated beneficiary for beneficiary's lifetime.

Option 3 - 75% Joint & Survivor

Similar to Option 2, but 3/4 of retiree's benefit continues to the designated beneficiary after retiree's death.

Option 4 - 66 2/3% Joint & Survivor

Similar to Option 2, but 2/3 of retiree's benefit continues to the designated beneficiary after retiree's death.

Option 5 - 50% Joint and Survivor

Similar to Option 2, but 1/2 of retiree's benefit continues to the designated beneficiary after retiree's death.

Option 6 A retiree may elect any of the Options 2-5 with an added provision which allows the benefit to revert to the amount of the lifetime benefit (pre-option reduced amount) in the event the beneficiary predeceases the retiree.

11. Requirements for Electing Optional Benefits

Any of the options may be elected at any time between 30 and 90 days prior to

early or normal retirement. A disability retiree may elect to receive the benefit under Option 5, subject to approval by the Board of the disability retirement application.

12. Purchase of Membership Service Credit for Prior Active Military Duty

Up to five years of additional service may be purchased upon completion of 5 years in the CFRS, for active duty served prior to CFRS membership. This service may be used to qualify for normal service retirement, but not early retirement.

13. Return from Active Military Duty

Membership service credit is granted to a member who returns to CFRS membership from active duty served during any period of national emergency condition or entry at any time through the operation of the compulsory military service law of the United States of America.

14. Accumulated Sick Leave and Vacation at Retirement

Membership service is credited for the balance of any unpaid sick leave and/or vacation at the time of retirement. Also, a member receives the inclusion of the amount of lump sum payoff at retirement for any vacation and/or sick leave attributable to the member's period of final average salary.

15. Purchase of Membership Service for Prior Government Service

Up to five years of additional service may be purchased upon completion of 5 years of service in the CFRS, for prior service with another government employer. 50% of prior government service may be purchased up to the maximum. The cost of such service is

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM SUMMARY OF PLAN PROVISIONS

calculated at full actuarial cost and may be used to qualify for normal service requirement but not early retirement.

16. Purchase of Membership Service for Withdrawn Service

Prior service with the Charlotte Fire Department and contributions withdrawn from the CFRS may be purchased in total at full actuarial cost upon completion of 5 years of service in the CFRS.

This summary of plan provisions is intended for information purposes and is in no way intended to supplant or replace the language of the Charlotte Firefighters' Retirement System Act which is the controlling document relating to benefits and any disputes regarding same. The CFRS Act should be reviewed prior to applying for or selecting benefits from the system.



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FINANCIAL SECTION

The purpose of the Financial Section is to provide the reader the present financial position and condition of the system. This section includes the independent auditors' report, audited financial statements, notes to financial statements, and required supplementary information which includes Management's Discussion and Analysis.



Independent Auditors' Report

The Board of Trustees
Charlotte Firefighters' Retirement System
Charlotte, North Carolina

We have audited the accompanying statements of the plan net assets of Charlotte Firefighters' Retirement System (the "CFRS"), a component unit of the City of Charlotte, North Carolina, as of June 30, 2004, and the related statements of changes in plan net assets for the year then ended, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CFRS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of CFRS as of June 30, 2003, were audited by other auditors whose report dated December 27, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CFRS as of June 30, 2004 and the change in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Employee and Employer Contributions are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America applicable to governmental entities. We have applied certain limited procedures, which consisted principally 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.

Our audit was made for the purpose of forming an opinion on the 2004 basic financial statements taken as a whole. The accompanying financial information, listed as Supplementary Schedules in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is also a responsibility of CFRS' management. The 2004 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, when considered in relation to the basic financial statements taken as a whole. The 2003 information was reported on by other auditors whose report thereon expressed an opinion that such information was fairly stated in all material respects for the year ended June 30, 2003, when considered in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial and statistical sections, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to auditing procedures applied in the audit of the CFRS' basic financial statements and, accordingly, we express no opinion on it.

Cherry, Betserit & Holland, L.L.P.

Charlotte, North Carolina
December 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis of the Charlotte Firefighters' Retirement System's (CFRS) financial statements and the significant events, conditions and decisions which affected the operations and performance of the CFRS during the years ended June 30, 2004 and 2003.

Overview of the Financial Statements and Accompanying Information

- 1) Fund Financial Statements. The CFRS presents Statements of Plan Net Assets as of June 30, 2004 and 2003 and Statements of Changes in Plan Net Assets for the years then ended. These statements reflect resources available for payment of benefits as of year-end and the sources and uses of those funds during the year. For purposes of discussion and analysis, the condensed information shown below includes three fiscal years.
- 2) Notes to Financial Statements. The notes to financial statements are an integral part of the financial statements and have additional detailed information to provide a better understanding of the financial statements. Information in the notes discloses the CFRS organization, benefits and contributions, how the asset values are determined, contingencies and commitments.
- 3) Required Supplementary Information. The required supplementary information consists of two schedules and related notes concerning the funding status of the CFRS, employer contributions and this Management's Discussion and Analysis.
- 4) Other Supplementary Schedules. Other schedules include detailed information on administrative expenses incurred by the CFRS, a schedule of investment manager fees by asset class and fees paid to consultants for professional services.

Comparative Statements of Plan Net Assets (in thousands)

	Years ended June 30		
	2004	2003	2002
Cash and Cash equivalents	\$5,851	\$7,419	\$5,880
Investments	256,725	219,954	217,751
Capital assets	339	356	374
Other assets	757	566	527
Total assets	\$263,672	\$228,295	\$224,532
Liabilities	(332)	(1,158)	(520)
Net Assets	\$263,340	\$227,137	\$224,012

Comparative Statements of Changes in Plan Net Assets (in thousands)

	Years ended June 30		
	2004	2003	2002
Contributions	\$11,653	\$10,918	\$10,176
Net Investment Gain (Loss)	39,495	7,190	(11,825)
Total Additions	\$51,148	\$18,108	(\$1,649)
Benefits	(14,549)	(14,138)	(13,605)
Other deductions	(396)	(845)	(639)
Total Deductions	(\$14,945)	(\$14,983)	(\$14,244)
Increase (Decrease) in Net Assets	\$36,203	\$3,125	(\$15,893)

Financial Analysis

The CFRS provides retirement benefits to the uniformed firefighters of the City of Charlotte. The CFRS benefits are funded through member and employer contributions and investment income. As reflected in the Comparative Statements of Changes in Plan Net Assets on Page 19, the net assets of the CFRS increased approximately \$36.2 million and \$3.1 million and decreased approximately \$15.9 million during the years ended June 30, 2004, 2003 and 2002, respectively. These results reflect the extreme volatility of the global markets and the improved market environment during the last two years after three years of declines.

Funded Ratio

The funded ratio of the plan measures the ratio of actuarially determined assets against actuarial liabilities and is a good indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. The CFRS is required to perform an annual actuarial valuation by the Act. The valuation as of July 1, 2004 showed the funded status of the CFRS increasing to 94.1% at July 1, 2004 from 93.9% at July 1, 2003 and from 95.6% at July 1, 2002. The CFRS valuations use a 5-year smoothed market basis. The amount by which actuarially determined liabilities exceeded actuarially determined assets was approximately \$17.3 million, \$16.8 million and \$11.7 million for the years ended June 30, 2004, 2003 and 2002, respectively. The increase in the funded ratio was due to improved global equity market returns.

Contributions and Income

Additions to Plan Net Assets include employer and member contributions and net income from investment activities. Member contributions were approximately \$6.1 million, \$5.6 million and \$5.1 million for the years ended June 30, 2004, 2003 and 2002, respectively, an annual increase of approximately \$500,000. The member rate is 12.65% of eligible compensation, set by statute and made on a tax-deferred basis. The employer rate is set at 12.65% by statute to equally match that of members. Member contributions accounted for 11.9% and 31.1% of the CFRS revenues in fiscal 2004 and 2003, respectively. Member contributions for fiscal 2002 were comparable, however, calculation of the percentage of revenues for that year would not be meaningful since the CFRS revenue was negative due to investment losses. Employer contributions were approximately \$5.6 million, \$5.3 million and \$5.1 million for the years ended June 30, 2004, 2003 and 2002, respectively.

Net investment income totaled approximately \$39.5 million during fiscal 2004 compared to net investment income of approximately \$7.2 million in fiscal 2003 and net investment losses of approximately \$11.8 million in fiscal 2002, resulting in returns of 18.11%, 4.07% and (4.16%), respectively. For the 5-year period ended June 30, 2004, the CFRS returns were 4.84% compared to its composite benchmark returns of 2.51%. The significant increase in investment income in 2004 was the result of improved global equity market conditions which began with the modest investment returns in 2003.

The most significant deduction from investment income is investment manager fees. The CFRS assets are managed 100% by external investment advisors hired by the Board of Trustees. Many of these managers are paid a fee based on the assets under management. Some of the active managers are also paid a base fee plus the possibility of performance incentive. Most of the managers were generally compensated less than in prior years because of the effect of decreasing asset values. Investment expenses for the years ended June 30, 2004, 2003 and 2002 were approximately \$1.31 million, \$1.30 million and \$1.26 million, respectively.

Prudent investment of the CFRS assets and diligent monitoring of investment advisors in addition to conservative administrative costs has enabled the CFRS to maintain a high funded status. The Board of Trustees is committed to maintaining the CFRS at or near 100% funding and will dedicate its efforts to that goal.

Benefits, Refunds and Expenses

The most significant recurring deduction to Plan Net Assets is benefit payments. During fiscal 2004 and fiscal 2003, the CFRS paid approximately \$14.6 million each year, up from \$13.9 million in fiscal 2002, in benefits and refunds. The unchanged level of total payments in the last two years was due primarily to the variance in numbers of refunds and of new retirements. The CFRS does not provide an automatic Cost of Living Adjustment (COLA). These are recommended to the Charlotte City Council on an ad hoc basis. The last COLA was implemented effective January 2000 and brought retirees to 1999 CPI levels. The CFRS does provide for a "bonus" payment to retirees and survivor beneficiaries based upon its funded status and only after consultation with the CFRS actuary. In January 2004, no bonus payment was paid to eligible retirees.

The administrative costs of the CFRS represented approximately 0.02%, 0.03% and 0.15% of the average assets in fiscal years 2004, 2003 and 2002, respectively.

Plan Assets

During fiscal years 2004, 2003 and 2002, investments allocated to domestic and international equity portfolios increased approximately \$15.7 million, \$14.8 million and \$422,000, respectively. The increase is attributable to the improved performance in global equity markets. The CFRS does not invest in alternative classes of investments such as hedge funds, venture capital and private equity. The CFRS also does not have a securities lending program at this time. During fiscal years 2004, 2003 and 2002, investments allocated to domestic and non-U.S. fixed income increased approximately \$123,000, decreased approximately \$7.8 million and increased approximately \$2.4 million, respectively. These results are attributable to the extreme volatility of bond markets during this period and global currency issues.

The CFRS values its assets at "fair value" as discussed in accounting policies footnote 2(d) to the financial statements. Fair value is the value the CFRS expects to receive in a current sale between a willing buyer and a willing seller that are equally motivated; that is, other than a forced or liquidation sale. The value of publicly traded securities, stocks and bonds, are determined using the latest quote from national exchanges or pricing services. These prices reflect the securities' pricing at the close of

business and can be affected by such factors as liquidity, current events and the size of lots being traded. Real Estate is valued using appraisal values by approved appraisers who meet professional qualifications. The appraisal process involves a significant amount of judgment and estimates. As a result, the ultimate value on the sale of the asset may differ from the appraised value. The CFRS utilizes an open end fund for its real estate investment allocation.

Contacting the CFRS Management

This financial report is designed to provide the City Council, members of the CFRS, citizens, taxpayers and other interested parties with an overview of the CFRS operations and financial position and to demonstrate its accountability. Questions concerning this report or requests for additional information should be directed to the Administrator, Charlotte Firefighters' Retirement System, 428 East 4th Street, Suite 205, Charlotte, NC 28202.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
COMPARATIVE STATEMENTS OF PLAN NET ASSETS
(In Thousands)**

	June 30	
	2004	2003
ASSETS:		
Cash and cash equivalents	\$ 5,851	\$ 7,419
Receivables:		
Member contributions	260	122
Employer contributions	178	134
Interest and dividends	319	310
Total receivables	<u>757</u>	<u>566</u>
Investments, at fair value:		
Equity securities - stocks	108,466	88,414
Fixed income securities - bonds	23,698	24,279
Mutual funds	124,561	107,261
Total investments	<u>256,725</u>	<u>219,954</u>
Capital assets, at cost, net of accumulated depreciation of \$103 - 2004 and \$86 - 2003	<u>339</u>	<u>356</u>
Total assets	263,672	228,295
LIABILITIES:		
Accounts payable	<u>332</u>	<u>1,158</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (SEE REQUIRED SUPPLEMENTARY INFORMATION FOR SCHEDULE OF FUNDING PROGRESS)		
	<u>\$ 263,340</u>	<u>\$ 227,137</u>

The notes to the financial statements are an integral part of this statement.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS
(In Thousands)**

	Years Ended June 30	
	2004	2003
ADDITIONS:		
Contributions:		
Member	\$ 6,099	\$ 5,640
Employer	<u>5,554</u>	<u>5,278</u>
Total contributions	<u>11,653</u>	<u>10,918</u>
Investment income:		
Net appreciation in fair value of investments	38,021	6,073
Interest	1,307	1,211
Dividends	<u>1,477</u>	<u>1,201</u>
	40,805	8,485
Less investment expense	<u>1,310</u>	<u>1,295</u>
Net investment income	<u>39,495</u>	<u>7,190</u>
Total additions	<u>51,148</u>	<u>18,108</u>
DEDUCTIONS:		
Benefits	14,549	14,138
Refunds	41	443
Administration	338	384
Depreciation	<u>17</u>	<u>18</u>
Total deductions	<u>14,945</u>	<u>14,983</u>
Change in net assets	36,203	3,125
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>227,137</u>	<u>224,012</u>
End of year	<u>\$ 263,340</u>	<u>\$ 227,137</u>

The notes to the financial statements are an integral part of this statement.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
NOTES TO THE FINANCIAL STATEMENTS - (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(Dollar Amounts in Thousands)

1. PLAN DESCRIPTION:

The Charlotte Firefighters' Retirement System (the System), a single-employer, defined benefit plan, was organized pursuant to the 1947 Session Laws of the State of North Carolina, for the purpose of providing retirement, disability and death benefits to civil service employees of the Charlotte Fire Department. Membership is mandatory at the date of employment. The System is administered by a Board of Trustees. The City of Charlotte's (City) payroll for members covered by the System for the year ended June 30, 2004 and 2003 was \$44 million and \$41 million, respectively.

At June 30, the System's membership consisted of:

	<u>2004</u>	<u>2003</u>
Retired participants and beneficiaries currently receiving benefits	435	427
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	1	2
Active participants	<u>897</u>	<u>876</u>
Total	<u>1,333</u>	<u>1,305</u>

Benefits vest after five years of credited service. The requirements for normal service retirement are: (a) any age with 30 years of service credit, (b) age 50 with 25 years of service credit, or (c) age 60 with five years service credit. The normal service retirement monthly benefits are 2.6 percent of final average salary multiplied by the years of credited service. Salary in the final year includes portions of cashed-in vacation and sick days. Final average salary is the monthly average received by the member during any two consecutive years of membership which produces the highest average and is contained within the last five years of membership. The minimum monthly benefit is \$902.75. Members less than age 50 may elect early retirement with 25 years of service credit. Early retirement benefits are reduced by 3 percent for each year the early retirement date precedes age 50.

If an employee ceases employment with less than five years of service credit, accumulated employee contributions are refunded to the employee or designated beneficiary. After five or more years of service, the employee may elect to receive a refund of the employee's accumulated contributions with interest compounded annually at 4 percent or receive an accrued benefit at age 60.

Death and disability benefits are also available. Benefit and contribution provisions are established by State law and may be amended only by the North Carolina legislature.

*CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA*
NOTES TO THE FINANCIAL STATEMENTS - (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(Dollar Amounts in Thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Presentation

The System provides services exclusively to the City; therefore, the System is included as a blended component unit and reported as a Fiduciary Pension Trust Fund in the City's basic financial statements.

The financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, which establishes reporting standards for defined benefit pension plans of state and local government entities.

GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, as amended by GASB Statement No. 25, exempts pension plans from presenting a statement of cash flows. As a result, the System has chosen not to present this statement.

b. Basis of Accounting

The financial statements are presented on the accrual basis of accounting. Property is stated at historical cost. Depreciation is computed using the straight-line method over an estimated useful life of twenty-five years for buildings and five years for equipment. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Interest and dividend income is reported as earned. The net appreciation (depreciation) in the fair value of investments includes realized gains and losses on investments that were both bought and sold during the year.

c. Cash and Cash Equivalents/Investments

Short-term, highly liquid investments are considered cash equivalents. Short-term refers to investments with an original maturity of three months or less at date of acquisition. Highly liquid investments are those that are readily convertible to known amounts of cash and so near their maturity that the risk of changes in value because of changes in interest rates is insignificant.

The carrying amount of deposits and investments were \$5,851 and \$256,725 at June 30, 2004 and \$7,419 and \$219,954 at June 30, 2003, respectively.

Deposits

All deposits of the System are made in board-designated official depositories and are insured or collateralized with securities held by the System's agent in the System's name. The bank balances at June 30, 2004 and 2003 were \$533 and \$47, respectively.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
NOTES TO THE FINANCIAL STATEMENTS - (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(Dollar Amounts in Thousands)

Investments

The North Carolina Act (Act) which established the System requires the Board of Trustees to act with the same care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims. The Act requires the Trustees to design an investment plan to further the purpose of the System by giving consideration to the following: (a) diversification of investments, (b) liquidity and return relative to cash flow needs and (c) projected return. In accordance with the Act, the Board of Trustees has developed and periodically revises a policy statement of investment goals, objectives, and guidelines, which specifically define vehicles that may be used for the investment of System funds. The System invests in United States government securities, corporate bonds, common stocks and mutual funds.

The System has also invested in collateralized mortgage obligations (CMO) and mortgage backed securities. CMO and mortgage backed securities are based on cash flows from principal and interest payments on underlying mortgages. CMO rates trade in sympathy with treasury rates. At year-end, the System held \$714 of these securities.

All investments, other than mutual funds, are insured or registered, or are securities held by its agent in the System's name (category 1). Mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

d. Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities and mutual funds traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates. The Plan utilizes various investment instruments including U. S. Government Securities, corporate bonds, common stocks, and mutual funds. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
NOTES TO THE FINANCIAL STATEMENTS - (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(Dollar Amounts in Thousands)

f. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning <u>Balance</u>	Increase	Decrease	Ending <u>Balance</u>
Capital assets, being depreciated:				
Buildings	\$ 435	\$ -	\$ -	\$ 435
Equipment	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>
Total capital assets being depreciated	<u>442</u>	<u>-</u>	<u>-</u>	<u>442</u>
Less accumulated depreciation for:				
Buildings	79	17	-	96
Equipment	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>
Total accumulated depreciation	<u>86</u>	<u>17</u>	<u>-</u>	<u>103</u>
Capital assets, net	<u>\$ 356</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ 339</u>

3. CONTRIBUTIONS:

Pursuant to the Act that established the System, the City is required to match the member's contribution. The Act establishes the contribution rate pursuant to the Board of Trustees' recommendation and approval by the Charlotte City Council. The current rate is 12.65 percent. The total contributions for the year ended June 30, 2004 were \$11.7 million, which consisted of \$5.6 million from the City and \$6.1 million from employees. For 2003 contributions were \$10.9 million, which consisted of \$5.3 million from the City and \$5.6 million from employees. Administrative costs are funded through contributions and investment earnings.

An actuarial study is completed annually as of July 1 to determine the actuarial requirements of this funding method. The actuarial method used is the Entry Age Actuarial Cost Method. The contributions made by the City and the members of the System compared to the actuarially determined requirements intended to cover normal cost and amortized unfunded actuarial accrued liabilities follows:

	In Dollars		Percent of Covered Payroll	
	2004	2003	2004	2003
Contributions made by -				
City	\$5,554	\$5,278	12.62%	12.76%
Members	<u>6,099</u>	<u>5,640</u>	<u>13.86</u>	<u>13.64</u>
Total	<u>\$11,653</u>	<u>\$10,918</u>	<u>26.48%</u>	<u>26.40%</u>
Actuarially determined contributions -				
Normal cost	\$11,021	\$10,317	25.04%	24.95%
Amortization of unfunded actuarial accrued liability	<u>632</u>	<u>601</u>	<u>1.44</u>	<u>1.45</u>
Total	<u>\$11,653</u>	<u>\$10,918</u>	<u>26.48%</u>	<u>26.40%</u>

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
NOTES TO THE FINANCIAL STATEMENTS - (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(Dollar Amounts in Thousands)

4. CONCENTRATIONS:

The System had fixed income or equity investments at June 30 managed by the following organizations that represented five percent or more of the System's net assets:

	<u>2004</u>	<u>2003</u>
Evergreen Investment Management	15%	15%
Morgan Stanley	15	14
Alliance Capital Management	10	10
Barrow, Hanley, Mewhinney & Strauss	9	12
State Street Global Advisors	9	11
Boston Partners Asset Management	9	8
Cadence Capital Management	8	8
Metropolitan Life Insurance Tower Fund	5	5

In addition, the System owned individual assets at June 30 that represented five percent or more of the System's net assets:

	<u>2004</u>	<u>2003</u>
State Street Global Advisors Fixed Income Index	9%	11%
Morgan Stanley Pooled International Equity Trust	13	12
Metropolitan Life Insurance Tower Fund	5	5

5. TREND INFORMATION:

Six-year historical trend information, designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due, is presented as required supplementary information.

6. INTERNAL REVENUE STATUS:

The Internal Revenue Service has determined that the System meets the requirements of Section 401(a) of the Internal Revenue Code and is exempt from Federal income tax under Section 501(a) of the Code.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION
(Dollar Amounts in Thousands)**

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) --Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
7/1/1999	\$ 216,336	\$ 186,854	\$ (29,482)	115.8%	\$ 32,462	(90.8)%
7/1/2000	235,901	239,784	3,883	98.4	33,080	11.7
7/1/2001	246,614	254,767	8,153	96.8	38,079	21.4
7/1/2002	254,013	265,712	11,699	95.6	39,849	29.4
7/1/2003	261,022	277,843	16,821	93.9	41,355	40.7
7/1/2004	274,948	292,341	17,393	94.1	44,009	39.5

Schedule of Employee and Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1999	\$ 3,694	210.0%
2000	4,446	193.5
2001	9,100	100.0
2002	10,176	100.0
2003	10,918	100.0
2004	11,653	100.0

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
 THE CITY OF CHARLOTTE, NORTH CAROLINA
 REQUIRED SUPPLEMENTARY INFORMATION - (Continued)
 Notes to Required Supplementary Information
 (Dollar Amounts in Thousands)**

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

Valuation date	7/1/2004
Actuarial cost method	Entry age
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75 to 7.75%
Includes inflation at	3.75%
Cost-of-living adjustments	None

*CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA*
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
(Dollar Amounts in Thousands)

	<u>Years Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
CASH RECEIPTS:		
Contributions:		
Member	\$ 5,961	\$ 5,575
Employer	<u>5,510</u>	<u>5,205</u>
Total contributions	11,471	10,780
Investing activities:		
Sales of investments	154,142	262,556
Interest	1,309	1,312
Dividends	<u>1,466</u>	<u>1,199</u>
Total investing activities	<u>156,917</u>	<u>265,067</u>
Total cash receipts	<u>168,388</u>	<u>275,847</u>
CASH DISBURSEMENTS:		
Benefits	15,026	14,091
Refunds	392	81
Administration	345	366
Investing activities:		
Purchase of investments	152,892	258,686
Investment expense	<u>1,301</u>	<u>1,084</u>
Total investing activities	<u>154,193</u>	<u>259,770</u>
Total cash disbursements	<u>169,956</u>	<u>274,308</u>
Net increase (decrease) in cash and cash equivalents	(1,568)	1,539
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,419</u>	<u>5,880</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,851</u>	<u>\$ 7,419</u>

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
SCHEDULE OF ADMINISTRATIVE EXPENSES AND DEPRECIATION
Year Ended June 30, 2004
(Dollar Amounts in Thousands)

PERSONAL SERVICES:

Staff Salaries	\$	147	
Social Security		11	
Retirement		7	
Insurance		6	
401 (k) Contributions		<u>5</u>	
Total Personal Services	\$		176

PROFESSIONAL SERVICES:

Other		26	
Legal Counsel		18	
Audit		9	
Actuarial Services		3	
Health Services		<u>2</u>	
Total Professional Services			58

COMMUNICATION:

Travel and Training		26	
Postage		12	
Printing		11	
Telecommunications		4	
Meetings		1	
Books and Subscriptions		<u>1</u>	
Total Communication			55

MISCELLANEOUS:

Office Condominium Fees		21	
Depreciation		17	
Insurance		14	
Annual Retiree Reunion		4	
Office and Computer Supplies		3	
Office Equipment Maintenance		3	
Miscellaneous and Contingency		2	
Professional Memberships		<u>2</u>	
Total Miscellaneous			<u>66</u>

TOTAL ADMINISTRATIVE EXPENSES AND DEPRECIATION \$ 355

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
SCHEDULE OF INVESTMENT EXPENSES**

Year Ended June 30, 2004

(Dollar Amounts in Thousands)

INVESTMENT MANAGEMENT FEES:

Morgan Stanley Dean Witter	\$	375
Boston Partners Asset Management LP		221
Evergreen Investment Management Company LLC		185
Metropolitan Life Insurance Company		148
Barrow, Hanley, MeWhinney & Strauss		87
Cadence Capital Management		79
Banc of America Capital Management		66
AllianceBernstein Capital Management Corporation		63
Baring Asset Management		50
State Street Global Advisors		<u>8</u>
Total Investment Management Fees		1,282

TRUST AND BANK FEES:

State Street Bank and Trust Company NA	107
Bank of America	3
Litigation Settlement	<u>(33)</u>
Total Trust and Bank Fees	77

INVESTMENT CONSULTING FEES:

Callan Associates Inc.	100
Commission Recapture	<u>(149)</u>
Total Investment Consulting Fees	(49)

TOTAL INVESTMENT EXPENSES **\$** 1,310

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
SCHEDULE OF PROFESSIONAL SERVICE EXPENSES
Year Ended June 30, 2004
(Dollar Amounts in Thousands)**

	Official System Position	Payments	Nature of Services
Morgan Stanley Dean Witter	Money Manager	\$ 370	Money Management
Boston Partners Asset Management	Money Manager	220	Money Management
Evergreen Investment Management Co	Money Manager	181	Money Management
Metropolitan Life Insurance Company	Money Manager	140	Money Management
State Street Bank and Trust Company NA	Custodian	132	Custodian
Callan Associates Inc.	Consultant	100	Consulting
Barrow, Hanley, MeWhinney & Strauss	Money Manager	89	Money Management
Cadence Capital Management	Money Manager	74	Money Management
Banc of America Capital Management	Money Manager	63	Money Management
AllianceBernstein Capital Management Corp	Money Manager	60	Money Management
Baring Asset Management	Money Manager	52	Money Management
Ceridian Employer Services	Benefits Processor	25	Benefits Processing
Edwards, Church & Muse	Insurance	17	Insurance
Parker, Poe, Adams & Bernstein	Attorney	13	Legal
IKON Management	Printer	10	Printing
State Street Global Advisors	Money Manager	10	Money Management
Deloitte & Touche LLP	Auditor	9	Audit
NorthEast Medical Center	Medical Board	5	Health Services
Womble, Carlyle, Sandridge & Rice	Attorney	5	Legal
Bank of America	Banker	3	Banking Services
Mellon HR and Investor Solutions	Actuary	3	Actuarial Services
The Travelers	Insurance	3	Insurance
Palmetto Productions	Product Supplier	2	Merchandise
Pitney Bowes Credit Corporation	Telecommunication	2	Mail Machine Lease
SMS Catering	Caterer	2	Catering
All Type Graphics	Printer	1	Printing
Dash Courier Service	Courier	1	Delivery Services
Lowrance Reporting Services	Court Reporter	1	Transcription
Technocom	Telecommunication	1	Telephone Maintenance
Subtotal		1,594	
Accrued at June 30, 2003		(412)	
Accrued at June 30, 2004		417	
TOTAL PROFESSIONAL SERVICE EXPENSES		\$ 1,599	

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
SCHEDULE OF INVESTMENTS
Year Ended June 30, 2004
(Dollar Amounts in Thousands)

Type of Investment	June 30, 2003		Sales Redemptions	Net Appreciation (Depreciation)	June 30, 2004		Percentage Fair Value
	Fair Value	Purchases			Fair Value	Fair Value	
FIXED INCOME:							
U. S. government securities	\$ 12,466	\$ 19,984	\$ 24,347	\$ 4,435	\$ 12,538		4.78%
Corporate bonds	11,813	18,344	13,882	(5,115)	11,160		4.25%
Total fixed income	24,279	38,328	38,229	(680)	23,698		9.03%
COMMON AND PREFERRED STOCK:	88,414	114,375	102,577	8,254	108,466		41.31%
MUTUAL FUNDS:							
Domestic Equities	24,974	44		5,895	30,913		11.77%
Fixed Income Bond Index	24,070			57	24,127		9.19%
International Equities	37,527	43	1,037	10,742	47,275		18.00%
International Fixed Income	8,489	102	71	673	9,193		3.50%
Real Estate	12,201			852	13,053		4.97%
Total mutual funds	107,261	189	1,108	18,219	124,561		47.43%
SHORT-TERM INVESTMENTS:	7,419	87,644	87,836	(1,376)	5,851		2.23%
	\$ 227,373	\$ 240,536	\$ 229,750	\$ 24,417	\$ 262,576		100.00%

Note: Short-term Investments are reflected as Cash and Cash Equivalents in the Statement of Plan Net Assets. A portfolio listing is available for review at the System's office. This schedule is not computed on a consistent basis with that used in the Statement of Changes in Plan Net Assets.



INVESTMENT SECTION

The purpose of the Investment Section is to provide the reader with data reflecting investment policy and the investment operations of the system. This section includes a consultant report, a list of investment goals for the system, an explanation of the investment performance analysis, a schedule of investment results and the system's return on investments. Also included is a schedule of largest assets held, schedule of fees and commissions, and a schedule of investment summary.

November 18, 2004



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

CFRS' investment program objective is to provide plan participants with retirement benefits. This is accomplished by the implementation of a carefully planned and executed long-term investment program. The Board of Trustees (Board) has exclusive control of all retirement system investments and is responsible for establishing investment objectives, strategies, and policies.

The assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the pension fund. While recognizing the importance of the "preservation of capital," CFRS also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long run. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interests of CFRS' members and beneficiaries.

The Board has adopted an Investment Policy Statement, which provides a framework for the management of CFRS' investments. This Statement establishes CFRS' investment policies and objectives and defines the principal duties of the Board and the investment managers.

Asset Allocation

A pension fund's strategic asset allocation policy implemented in a consistent and disciplined manner is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset class mix (target allocation) which is expected to achieve a specific set of investment objectives. The strategic asset allocation targets for CFRS are:

Domestic Equity	51%
Non-U.S. Equity	16%
Real Estate	6%
Domestic Fixed Income	23%
Non-U.S. Fixed Income	4%

The asset allocation is efficient – it generates the maximum level of expected return for the expected level of risk. The asset mix reflects the appropriate level of risk for the plan, based upon a balanced consideration of plan liabilities and the expected interaction of the liabilities with potential fund performance.

Performance

For the fiscal year 2004 CFRS produced a robust return of 18.11%. This exceeded the fund benchmark by 1.61%. The fund benchmark assumes a passive implementation of the strategic asset allocation policy.

The five-year annualized return of 4.84% exceeded the fund benchmark by 2.33%. In the Callan Public Fund Universe, CFRS' total fund performance ranks at the 21st percentile for five-years and 18th percentile since inception (16 years). The performance information in this report is fully compliant with the AIMR Performance Presentation Standards.

Very truly yours,

Jeanne Valcik, CFA

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM INVESTMENT POLICY, GOALS, OBJECTIVES & GUIDELINES

BACKGROUND

The Charlotte Firefighters' Retirement System is the primary retirement income vehicle for its members and is co-sponsored by the City of Charlotte and the uniformed employees of the Charlotte Fire Department. The Board will discharge its investment responsibilities and make all decisions solely in the interest of plan participants and their beneficiaries.

Funding Philosophy

The Board's funding goal for the system is to be as fully funded as prudently possible so that:

- the ability to pay all benefit obligations when due is ensured;
- the City of Charlotte and the Board have maximum flexibility in determining the future level of contributions; and
- a funding "cushion" is maintained for unexpected developments and for possible future changes in retirement benefit levels.

Investment results are considered to be a critical element in achieving the system's funding goal stated above.

Risk Tolerance

In establishing investment objectives and guidelines that are consistent with the Board's funding goal, several factors were examined to determine the system's financial ability to withstand variability of investment return. The Board analyzed the system's financial and legal characteristics, work force demographics and actuarial and funding policies.

The assets of the system should be invested with a risk orientation that is consistent with a moderate ability to assume risk. The Board defines a moderate risk orientation as:

- a willingness to tolerate some interim fluctuations in market value and rates of return in order to achieve the asset allocation objective stated below; and
- a desire to limit the volatility in the fund's rate of return to a level that approximates the average volatility experienced by other U.S. defined benefit retirement plans.

INVESTMENT OBJECTIVES & GUIDELINES

Asset Allocation

The system's risk tolerance is, in large part, a function of the asset mix established for the fund. Based on its analysis of capital and money market return patterns, both historical and projected, the Board considers the following asset allocation to be consistent with the risk tolerance previously defined.

Total Fund Asset Mix Ranges

The Total Fund Asset Mix Guidelines will be implemented and maintained by the following distribution through a combination of "Specialist" Investment Managers and internal management in each of the asset class categories as follows:

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM INVESTMENT POLICY, GOALS, OBJECTIVES & GUIDELINES

<u>"Specialist" Managers</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>
Domestic Equity	51%	+/-5%
Non-U.S. Equity	16%	+3/-2%
Real Estate	6%	+2/-3%
Domestic Fixed Income	23%	+/-4%
Non-U.S. Fixed	4%	+/-2%
Cash	0%	+2/-5%

Total Fund Asset Mix Ranges

This distribution of assets among the aforementioned investment managers and the individual manager guidelines will produce the following Total Fund Asset Mix Ranges:

<u>Asset Class</u>	<u>Market Value Exposure</u>	
	<u>Maximum</u>	<u>Minimum</u>
Domestic Equities	56%	46%
Non-U.S. Equities	19%	14%
Real Estate	8%	3%
Domestic Fixed Income	27%	19%
Non-U.S. Fixed	6%	2%
Internal Account	5%	2%

These guidelines are to be pursued by the fund on a long term basis (five year goal) but will be revised if significant changes occur within the economic and/or capital market environments.

INVESTMENT GOALS

In formulating investment goals for the system's assets, the Board placed primary emphasis on the following:

- Achieving investment results that will accomplish the stated funding goal for the system. Inflation is the key factor driving the cost of retirement programs. The primary function of a retirement plan investment program is to help pay the cost of providing retirement

benefits by offsetting the impact of inflation on costs. Therefore, investment performance that exceeds the rate of inflation, thereby providing a real rate of return, will contribute to the proper funding of the system.

- Receiving from its investment managers' performance that is above average compared to other comparably styled managers.
- Annual income production sufficient to cover benefit payments, administrative costs and investment manager, trustee, actuary, performance measurement and consultant fees.

Accordingly, the specific goals set forth below reflect the above general goals.

Total Fund Goals

As noted in a prior section, the system's primary funding goal is to achieve and maintain a funded status that provides for the security of retirement income to participants in the plan.

Given the impact of inflation on retirement plan funding, the primary total fund investment goal is to achieve a positive inflation adjusted (real) return. The Board recognizes that over short and intermediate periods of time its goal may be difficult to achieve because rapid increases or decreases in the level of inflation tend to adversely impact the capital markets. For this reason, the total fund inflation adjusted goal is established in the context of a longer-term time horizon:

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM INVESTMENT POLICY, GOALS, OBJECTIVES & GUIDELINES

- The fund's overall annualized total return (price change plus income) should exceed the return available from a policy of "rolling over" 91 day Treasury Bills (as a proxy for the inflation rate) by at least 325 basis points per year measured over a period of 10 years. A 325 basis points annual premium above "risk free" Treasury Bill rates is consistent with the desired risk tolerance.
- The fund's annualized total return over a rolling period of five years should exceed by 75 basis points the return that would have been achieved if the fund had been invested (as of October 1, 1999) 51.0% in the Russell 3000 Stock Index, 14.0% in the Morgan Stanley Capital International (MSCI) Europe, Australia Far East (EAFE) Index, 2.0% Morgan Stanley Capital International Emerging Markets Index (MSCI-EM), 23.0% in the Lehman Brothers Aggregate Bond Index, 6% in the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, and 4% in the Citigroup Non-US Government Bond Index.

Domestic Equity Segment Goals

The following performance goals have been established for the fund's domestic equity segment:

- The domestic equity segment total return should rank in the upper 35% compared to the domestic equity results of other retirement

fund portfolios measured over a period of five years.

- The domestic equity segment total return should exceed the total return of the Russell 3000 Stock Index by at least 200 basis points per year measured over a period of five years.

Non-Domestic Equity Segment Goals

The following performance goals have been established for the Non-domestic equity segment of the system's assets:

- The non-domestic equity segment total return should rank in the upper 35% compared to the non-domestic equity results of other retirement fund portfolios measured over a period of five years.
- The non-domestic equity segment total return should exceed the total return of the Morgan Stanley Capital International Europe, Australia, Far East Index (MSCI-EAFE) by at least 200 basis points per year measured over a period of five years.

Real Estate Segment Goals

The following performance goals have been established for the real estate segment of the system's assets:

- The total real estate segment return should rank in the upper 35% compared to the real estate results of other retirement fund portfolios measured over a period of five years.

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM INVESTMENT POLICY, GOALS, OBJECTIVES & GUIDELINES

- The total real estate segment return should exceed the NCREIF Index by at least 100 basis points per year over a period of five years.

Domestic Fixed Income Segment Goals

The following performance goals have been established for the domestic fixed income segment of the system's assets:

- The total domestic fixed income segment return should rank in the upper 50% compared to the fixed income results of other retirement fund portfolios measured over a period of five years.
- The total domestic fixed income return should exceed the total return of the Lehman Brothers Aggregate Bond Index by at least 30 basis points per year measured over a period of five years.

Internal Account

The following performance goals have been established for the Fund's Internal Account segment of the system's assets:

The internal account is used solely for payment of benefit payments and administrative expenses and shall be invested in a U.S. Treasury Money Market account with the Fund's Custodian at all times.

Non-Domestic Fixed Income Segment Goals

The following performance goals have been established for the fund's non-domestic fixed income segment of the system's assets:

- The total non-domestic fixed income segment should rank in the upper 50% compared to the non-domestic fixed income results of other retirement fund portfolios measured over a period of five years.
- The total non-domestic fixed income return should exceed the total return of the Citicorp Non-US Government Bond Index by at least 150 basis points per year measured over a period of five years.

INVESTMENT PERFORMANCE

The investment performance of the system is being monitored by Callan Associates, Inc., a highly respected portfolio evaluation service provider and consultant in the United States.

A summary of the Charlotte Firefighters' Retirement System's performance results, along with a brief description of issues to be considered in interpreting the results follow. Since the purpose of the summary is to provide an overview, the reader is cautioned against forming conclusions that may be premature.

The information provided is prepared for the Charlotte Firefighters' Retirement System Comprehensive Annual Financial Report to provide a profile of the system's performance.

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM INVESTMENT POLICY, GOALS, OBJECTIVES & GUIDELINES

Total Annualized Rate of Return

This shows how the Charlotte Firefighters' Retirement System performed over multi-year periods compared with a customized portfolio of asset class investments invested in the same proportion as the CFRS fund targets.

Segment Annualized Rate of Return

This shows how each asset class component of the Charlotte Firefighters' Retirement System performed over the multi-year periods. Since the system's total return is comprised of the combination of each segment, reviews are important because academic studies have clearly shown that the asset allocation decision (the decision on what segments and proportion invested in each) determines between 70% to 95% of the total annualized rate of return.

Percentile rank indicates the annualized rate of return of a comparable portfolio that attained that level of performance in each segment component as measured by the Callan Associates, Inc. universe. A low percentage indicates a relatively higher return. The reader can choose a time period of particular interest and examine the return the CFRS earned for that period. For any time period one chooses to examine, the median serves as an effective standard for determining what a "reasonable" return for that period would have been (the median is that return which outranked 50% of the funds in the Callan universe and which was outranked by 50% of the funds).

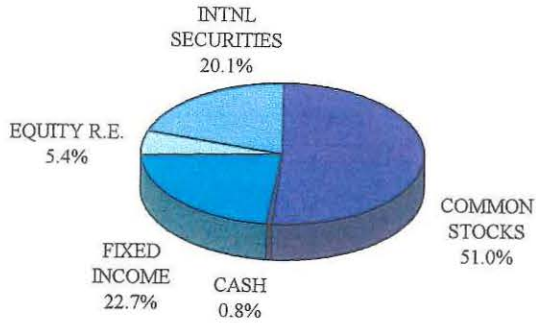
This summary should be regarded only as an introduction to evaluating the Charlotte Firefighters' Retirement System's investment performance results. Nevertheless, it is hoped that this brief overview will be of some assistance.

RETURN ON INVESTMENT

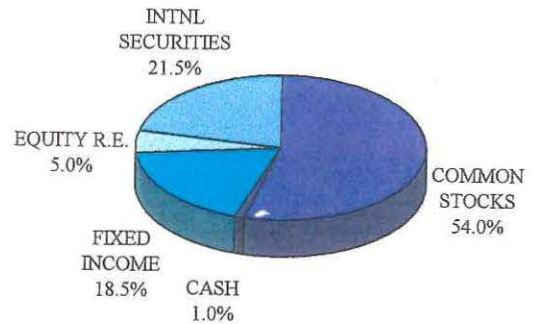
The return on investments, which is defined as the income plus or minus the appreciation or depreciation in value, is analyzed each quarter. The Charlotte Firefighters' Retirement System return on investments is compared with the returns of the Callan Associates, Incorporated universe which is comprised of over 80% of the professionally managed investments in the United States. Evaluation for the various time periods ended June 30, 2004 are shown on subsequent pages. All returns are "time weighted", annualized "total" rates of return in accordance with AIMR performance presentation standards and are based on market values.

PORTFOLIO DISTRIBUTION

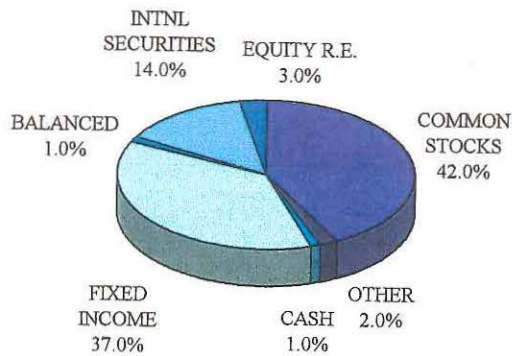
**CHARLOTTE FIREFIGHTERS'
RETIREMENT SYSTEM
AS OF JUNE 30, 2003**



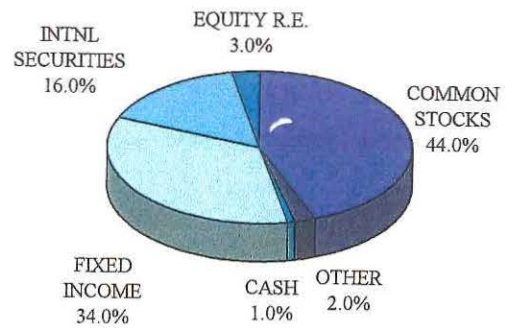
**CHARLOTTE FIREFIGHTERS'
RETIREMENT SYSTEM
AS OF JUNE 30, 2004**



**PUBLIC PENSION FUNDS UNIVERSE*
AS OF JUNE 30, 2003**

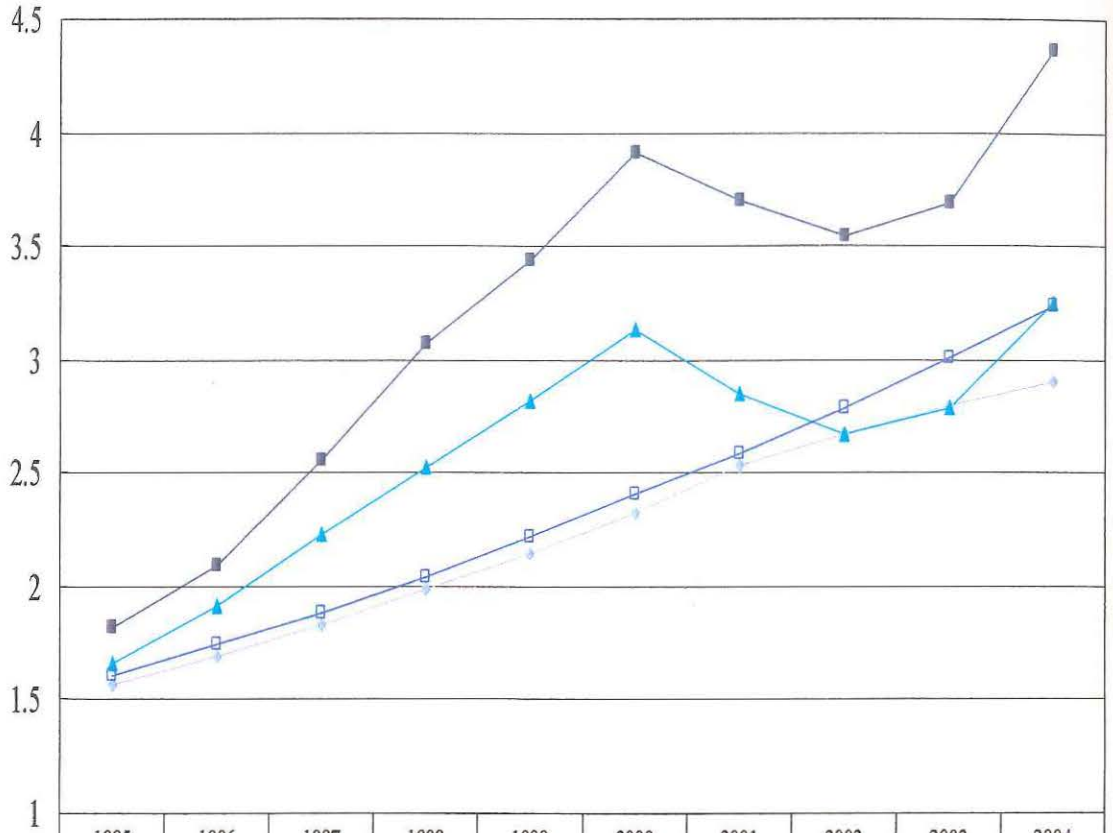


**PUBLIC PENSION FUNDS UNIVERSE*
AS OF JUNE 30, 2004**



*Callan Associates, Inc. c2004

TOTAL FUND INVESTMENTS GOALS – LAST TEN YEARS
Years Ended June 30



■ CFRS	1.8168	2.0939	2.5581	3.0707	3.4432	3.9101	3.7013	3.5473	3.6917	4.3603
◆ T-BILLS +3%	1.5629	1.6934	1.8340	1.9864	2.1427	2.3255	2.5320	2.6746	2.7957	2.9070
▲ CUSTOMIZED INDEX	1.6674	1.9172	2.2278	2.5190	2.8157	3.1353	2.8484	2.6681	2.7885	3.2486
◻ ACTUARIAL ASSUMPTIONS 7.75%	1.6090	1.7417	1.8854	2.0409	2.2209	2.4042	2.5905	2.7912	3.0076	3.2407

Note: Actuarial assumption changed from 8.25% to 7.75% as of July 1, 2000.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
INVESTMENT RESULTS
Periods Ended June 30**

RATE OF RETURN	FISCAL YEAR										Rates Over 10 Years	10-Year Rate
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
CFRS	17.33%	15.25%	22.17%	20.04%	12.13%	13.56%	-5.34%	-4.16%	4.07%	18.11%	11.32%	113.16%
Consumer Price Index	3.08%	2.81%	2.15%	1.60%	1.94%	3.87%	3.19%	0.74%	2.10%	3.17%	2.47%	24.65%
Customized Index	14.36%	14.98%	16.20%	13.07%	11.78%	11.35%	-9.15%	-6.33%	4.51%	16.50%	8.73%	87.27%
Market Indicators												
* Callan Real Estate Median	8.82%	6.67%	9.15%	16.75%	11.24%	9.54%	7.99%	5.88%	11.73%	***	9.75%	87.77%
* Custom Mid Value Index	20.54%	22.16%	25.95%	26.22%	5.39%	-3.91%	28.37%	2.52%	-1.55%	32.08%	15.78%	157.77%
* FRMS Stock Index	20.56%	23.66%	24.12%	20.28%	18.23%	***	***	***	***	***	21.37%	106.85%
* Lehman Aggregate Index	12.54%	5.02%	8.15%	10.54%	3.15%	4.57%	11.22%	8.63%	10.40%	0.32%	7.45%	74.54%
* ML 1-3 Govt/Corp Bond	7.81%	5.53%	6.64%	6.85%	5.18%	4.92%	9.43%	6.82%	5.63%	0.73%	5.95%	59.54%
* MSCI EAFE Index	1.66%	13.28%	12.84%	6.10%	2.54%	17.15%	-23.83%	-9.49%	-6.46%	32.37%	4.62%	46.16%
* MSCI Emerging Mkts Free	-0.03%	8.48%	12.82%	-39.09%	28.71%	9.48%	-25.93%	1.31%	6.96%	33.51%	3.62%	36.22%
* NCREIF Total Index	7.80%	8.07%	10.81%	17.45%	12.79%	11.62%	11.57%	5.50%	7.64%	10.83%	10.41%	104.08%
* Russell 2000 Stock Index	20.06%	23.89%	16.33%	16.51%	1.50%	14.32%	0.57%	-8.60%	-1.64%	33.37%	11.63%	116.31%
* Russell 3000 Stock Index	24.93%	26.01%	30.58%	28.81%	20.10%	9.60%	-13.93%	-17.24%	0.77%	20.46%	13.01%	130.09%
* S&P MidCap Index	22.35%	21.58%	23.33%	27.15%	17.19%	16.97%	8.87%	-4.72%	-0.71%	27.98%	16.00%	159.99%
* SB EMB Market ex-US	-4.58%	16.98%	1.27%	-1.68%	1.02%	12.68%	-19.45%	-0.98%	0.90%	44.36%	5.05%	50.52%
* SB NON-US Bond Index	22.71%	-1.69%	2.16%	0.89%	4.87%	2.42%	-7.43%	15.73%	17.90%	7.60%	6.52%	65.16%
* Standard & Poor's 500 Index	26.07%	26.00%	34.70%	30.16%	22.76%	7.24%	-14.83%	-17.99%	0.25%	19.11%	13.35%	133.47%
* Treasury Bills	5.44%	5.35%	5.30%	5.31%	4.89%	5.53%	5.88%	2.63%	1.53%	0.98%	4.28%	42.84%
* Wilshire 5000 Stock Index	24.72%	26.22%	29.32%	28.86%	19.59%	9.53%	-15.28%	-16.62%	1.27%	***	11.96%	107.61%

Investment results are shown on a time-weighted rate of return based on the market rate of return.

***Callan Real Estate Median Index substituted by CFRS with the NCREIF Total Index.

***FRMS Stock Index discontinued in October 1999 and substituted by CFRS with the Wilshire 5000 Stock Index.

***Wilshire 5000 Stock Index substituted in October 2003 with the Russell 3000 Stock Index.

See Glossary for explanation of the Market Indices shown in this Table.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
INVESTMENT RESULTS
Periods Ended June 30**

	Last Year	Last 3 Years	Last 5 Years
Domestic Equity	22.28%	1.00%	0.79%
AllianceBernstein	18.31%	-5.80%	-7.13%
Banc of America Capital Management	25.67%	-	-
Boston Partners Asset Management	30.09%	10.00%	7.82%
Cadence Capital Management	24.14%	1.14%	6.09%
Evergreen Investment Management	18.60%	-0.17%	0.62%
ICM Small Company Portfolio	28.21%	11.83%	13.01%
SSGA S&P 500 Flagship	19.11%	-	-
Russell 3000	20.46%	0.15%	-1.07%
Standard & Poor's 500	19.11%	-0.70%	-2.20%
S&P MidCap Index	27.98%	6.58%	9.05%
Custom MidCap Value Index*	32.08%	10.06%	10.46%
Custom MidCap Index**	28.68%	6.51%	7.79%
Russell 1000 Value	21.13%	2.97%	1.87%
Russell 1000 Growth	17.88%	-3.74%	-6.48%
Russell 2000	33.37%	6.24%	6.63%
Russell 2000 Value	35.17%	12.15%	12.82%
Russell 2000 Growth	31.55%	-0.22%	-0.45%
Domestic Fixed-Income	0.54%	6.16%	6.82%
Barrow, Hanley, MeWhinney & Strauss	0.85%	-	-
SSGA Bond Market Fund	0.24%	6.43%	-
Lehman Aggregate	0.32%	6.36%	6.95%
ML 1-3yr Govt/Corp	0.73%	4.36%	5.47%
International Equity	35.24%	11.14%	10.52%
Morgan Stanley International Equity	32.30%	10.77%	10.23%
Morgan Stanley Emerging Markets	35.02%	14.52%	5.89%
T. Rowe Price Discovery Fund	49.63%	9.20%	12.78%
MSCI EAFE Index	32.37%	3.87%	0.06%
MSCI Emerging Markets Free	33.51%	13.10%	3.27%
SB EMB ex-US	44.36%	12.94%	6.41%
International Fixed Income	8.30%	14.14%	7.68%
Baring International Fixed Income	8.89%	14.36%	6.61%
Baring Emerging Debt	4.26%	14.15%	15.43%
S/B Non-U.S. Govt Bond	7.60%	13.66%	6.84%
Emerging Markets Bond	4.78%	10.37%	13.33%
Real Estate	6.99%	4.78%	7.70%
SSR Realty Advisors	6.99%	4.78%	7.70%
Treasury Bills	0.98%	1.71%	3.29%
Consumer Price Index	3.17%	2.00%	2.62%
Total Fund	18.11%	5.61%	4.84%
Composite Benchmark	16.50%	4.49%	2.51%

Returns for periods longer than one year are annualized.

Investment results are shown on a time-weighted rate of return based on the market rate of return.

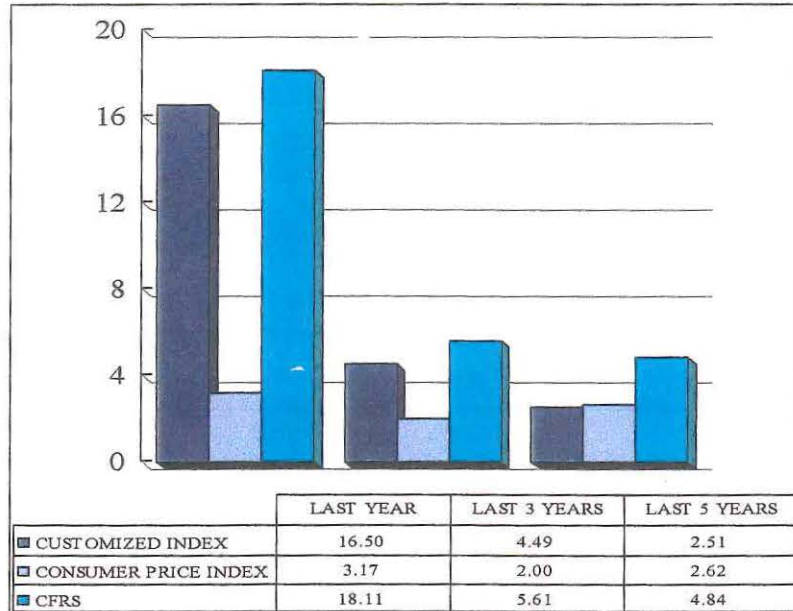
*Custom Mid Cap Value Index = 50% S&P Mid Cap Value and 50% Russell Mid Cap Value.

**Custom Mid Cap Index = 50% S&P Mid Cap and 50% Russell Mid Cap.

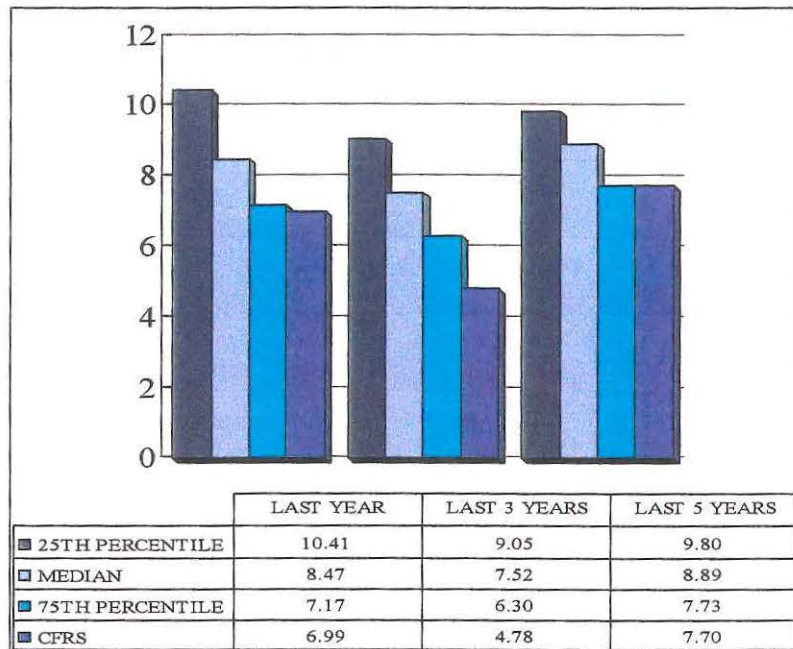
See Glossary for explanation of the Market Indices shown in this Table.

RETURN ON INVESTMENTS

TOTAL PORTFOLIO

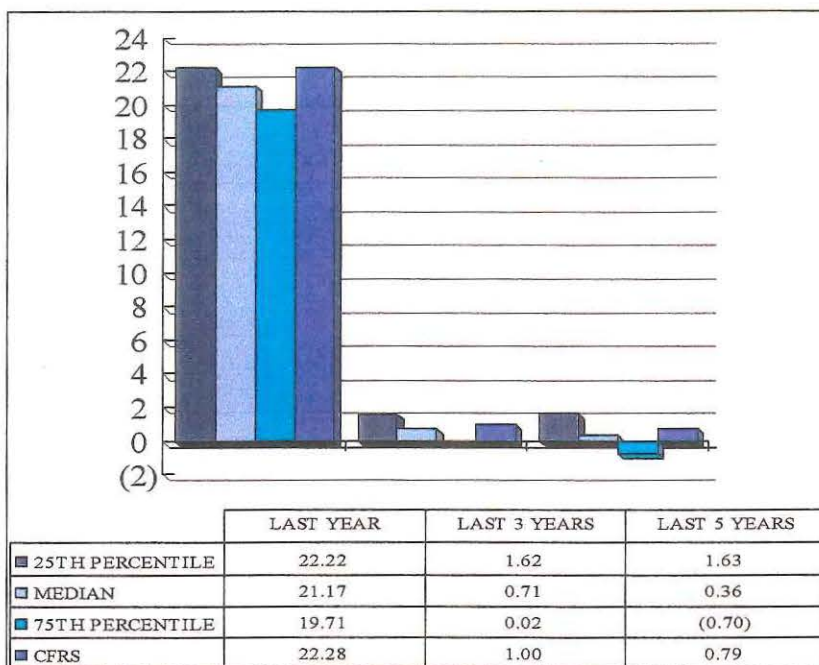


REAL ESTATE

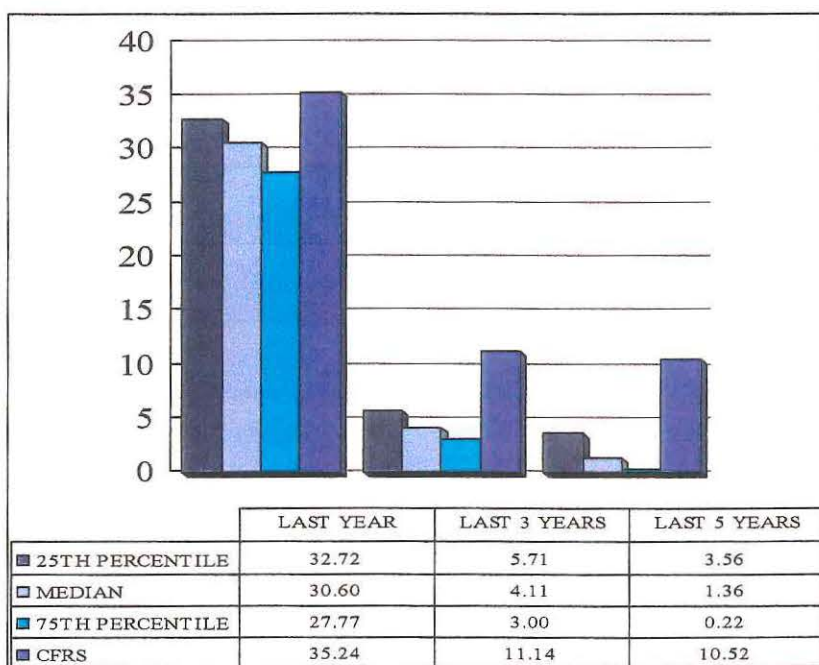


RETURN ON INVESTMENTS

EQUITY

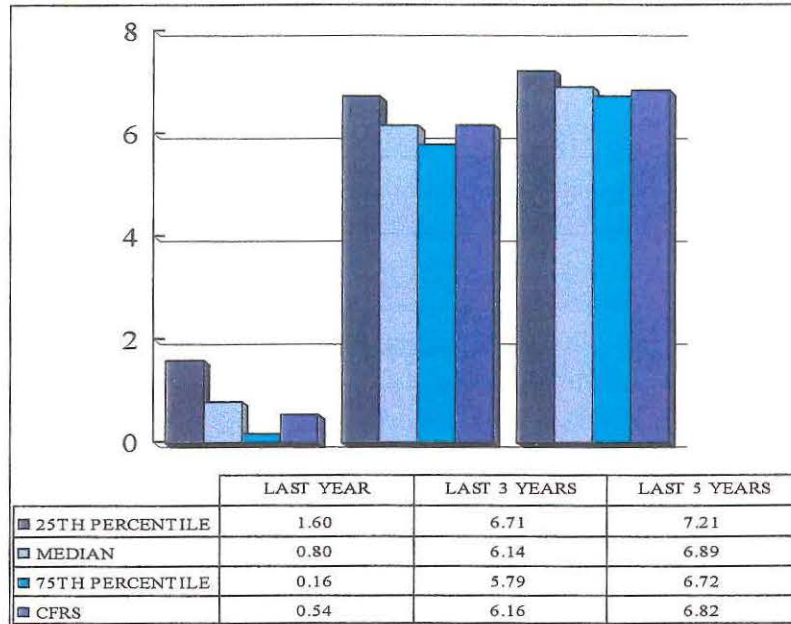


INTERNATIONAL EQUITY

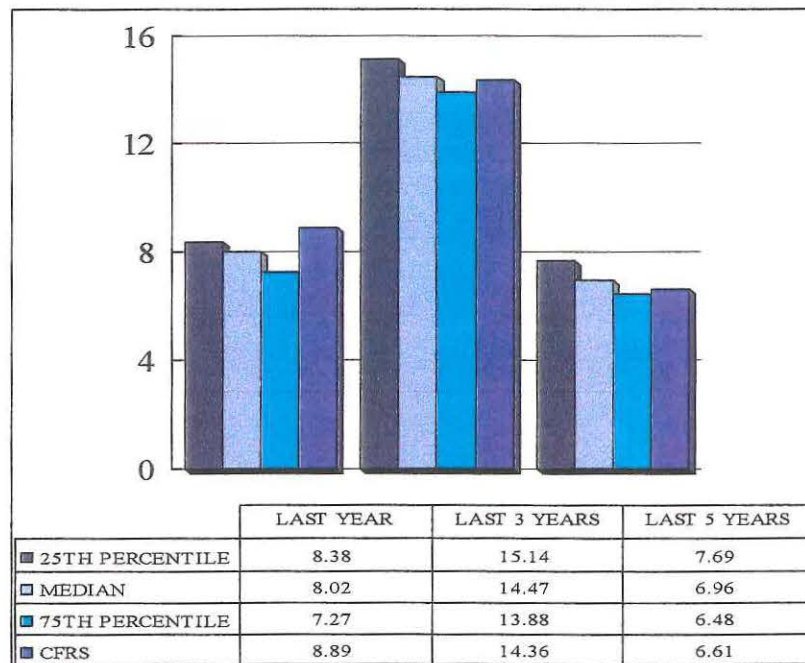


RETURN ON INVESTMENTS

FIXED INCOME

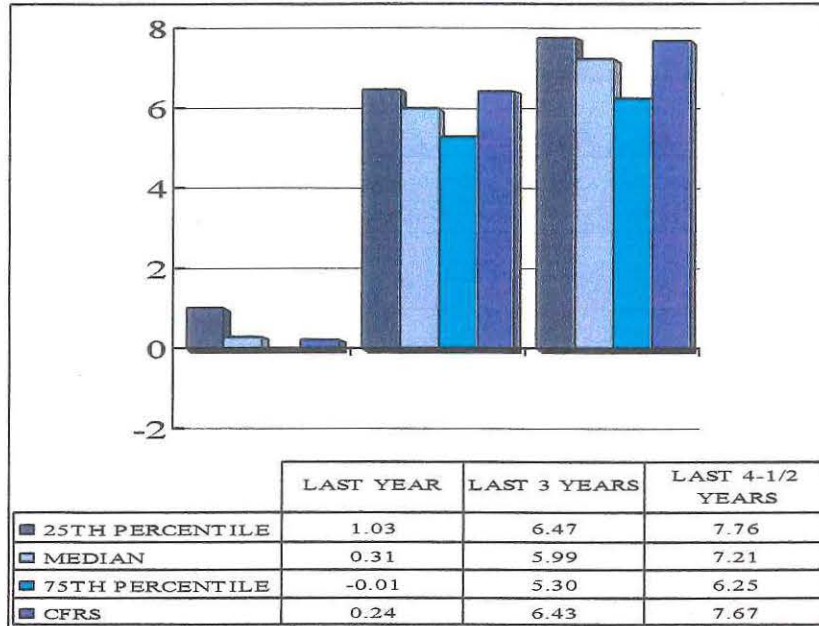


INTERNATIONAL FIXED INCOME

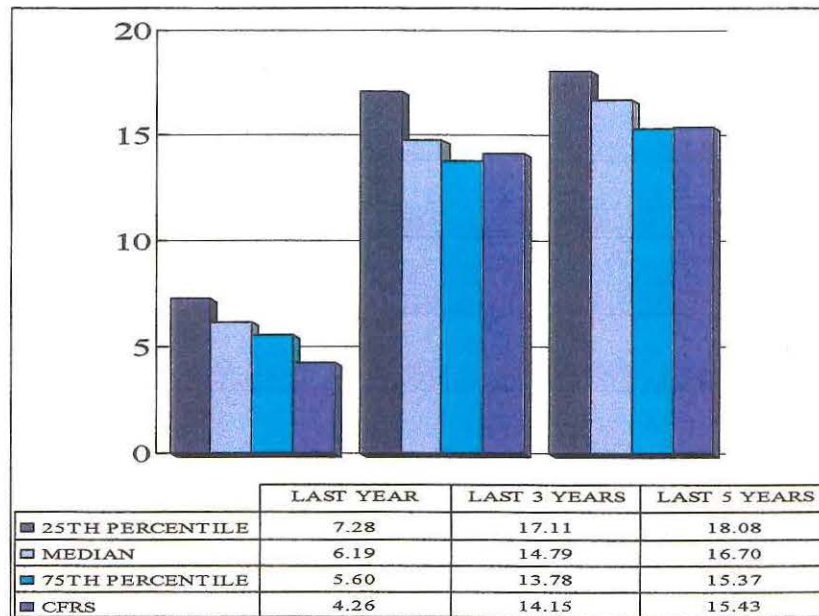


RETURN ON INVESTMENTS

BOND MARKET FUND



INTERNATIONAL EMERGING DEBT FUND



**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
LIST OF LARGEST ASSETS HELD
(Dollar and Share Amounts in Thousands)**

**Largest Stock Holdings (By Fair Value)
June 30, 2004**

	Shares	Stock	Fair Value
1)	274	Morgan Stanley Pooled International Equity Trust	\$ 34,318
2)	19	Metropolitan Life Insurance Tower Fund	13,053
3)	59	SSgA S&P 500 Flagship Fund	12,070
4)	277	UAM Small Co/Advisors Inner Circle Fund	9,627
5)	7	Banc of America Small Cap Growth Fund	9,216
6)	273	T Rowe Price International Discovery Fund	7,868
7)	240	Morgan Stanley Emerging Markets Trust	5,088
8)	55	Citigroup Inc	2,572
9)	48	Pfizer Inc	1,641
10)	23	American Intl Group Inc	1,605

**Largest Bond Holdings (By Fair Value)
June 30, 2004**

	Par/Units	Bond	Fair Value
1)	1414	State Street Global Advisors Fixed Income Index Fund	\$ 24,126
2)	37	Baring International Trust Fund F - Non-Dollar Fixed Income	7,982
3)	1,557	FNMA #748115 6.000% due 10/01/2033 Rating AGY	1,592
4)	7	Baring International Trust Fund G - Emerging Debt	1,211
5)	956	FNMA #759666 6.500% due 4/01/2031 Rating AGY	1,002
6)	618	FNMA #727223 5.500% due 9/01/2033 Rating AGY	617
7)	543	FNMA #555170 6.000% due 11/01/2017 Rating AGY	566
8)	545	US Treasury Bonds 5.375% due 2/15/2031 Rating GOV	550
9)	477	FHLMC 30-Year TBA 6.000% due 6/01/2035 Rating AGY	487
10)	407	FNMA #713999 5.500% due 7/01/2033 Rating AGY	406

A portfolio listing is available for review at the System's office.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
SCHEDULE OF FEES AND COMMISSIONS
Year Ended June 30, 2004
(Dollar Amounts in Thousands)

	Assets under management	Fees
INVESTMENT MANAGERS' FEES:		
Equity managers	\$ 189,424	\$ 989
Fixed income managers	60,099	145
Real estate managers	13,053	148
Total investment managers' fees	\$ 262,576	1,282
OTHER INVESTMENT SERVICE FEES:		
Custodian fees		107
Investment consultant fees		100
Banking fees		3
Commission Recapture		(149)
Litigation Settlement		(33)
Total investment service fees		28
TOTAL INVESTMENT FEES		\$ 1,310

Brokerage Firm	Number of Shares Traded	Total Commissions	Percentage Cost of Transactions
Lynch Jones & Ryan Inc	3,779	189	0.05
BNY Brokerage Inc	262	12	0.05
Lehman Brothers Inc	175	9	0.05
Credit Suisse First Boston Corp	150	7	0.05
Merrill Lynch Pierce Fenner & Smith	151	7	0.05
Compass Point Research & Trading	145	7	0.05
Weeden & Co	163	7	0.04
Morgan Stanley Co Inc	123	6	0.05
Citigroup Global Markets Inc	108	5	0.05
Bear Stearns & Co Inc	107	5	0.05
Goldman Sachs & Co	107	5	0.05
Leerink Swann & Co	119	5	0.04
Jefferies Co Inc	101	5	0.05
CIBC World Markets Corp	108	5	0.05
Lazard Freres & Co	79	4	0.05
La Branche Financial #2	100	4	0.04
Prudential Equity Group	70	3	0.04
Merrill Lynch Professional Clearing	72	3	0.04
Banc of America Securities LLC Montgomery	69	3	0.04
UBS Warburg LLC	68	3	0.04
Cantor Fitzgerald & Co	72	3	0.04
UBS Securities LLC	69	3	0.04
Adams Harkness & Hill Inc	57	3	0.05
Deutsche Bank Securities Inc	57	3	0.05
Bear Stearns Securities Corp	49	2	0.04
Sandler O'Neill & Part LP	50	2	0.04

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**

SCHEDULE OF FEES AND COMMISSIONS - (continued)

Year Ended June 30, 2004

(Dollar Amounts in Thousands)

Brokerage Firm	Number of Shares Traded	Total Commissions	Percentage Cost of Transactions
Thomas Weisel Partners	46	2	0.04
Keefe Bruyette & Woods Inc	38	2	0.05
Robert W Baird & Co Inc	38	2	0.05
JP Morgan Securities Inc	38	2	0.05
Fulcrum Global Partners LLC	35	2	0.06
Liquidnet Inc	67	2	0.03
Legg Mason Wood Walker Inc	32	2	0.06
RBC Dain Rauscher Inc	31	2	0.06
McDonald & Co Securities	31	2	0.06
Charles Schwab Co Inc	37	2	0.05
Fiserv Securities Inc	36	1	0.03
Janney Montgomery Scott Inc	29	1	0.03
United States Trust Co of New York	28	1	0.04
Bridge Trading	28	1	0.04
Friedman Billings & Ramsey	55	1	0.02
Stephens Inc	26	1	0.04
America's Growth Capital LLC	25	1	0.04
SG Cowen Securities Corp	24	1	0.04
Donaldson & Co Inc	23	1	0.04
Needham & Co	40	1	0.03
Knight Securities	21	1	0.05
Fox Pitt Kelton Inc	21	1	0.05
Wachovia Capital Markets LLC	21	1	0.05
Instinet Clearing Services Inc	21	1	0.05
Sanford C Bernstein Co LLC	24	1	0.04
Pulse Trading LLC	27	1	0.04
AG Edwards Sons Inc	19	1	0.05
Midwest Research Securities	16	1	0.06
Suntrust Capital Markets Inc	15	1	0.07
Wit Soundview Corp	15	1	0.07
Broadcort Capital	15	1	0.07
Factsect Data Systems	15	1	0.07
Fidelity Capital Markets	16	1	0.06
Morgan Keegan & Co Inc	14	1	0.07
William Blair & Co LLC	14	1	0.07
FP Maglio & Co Inc	24	1	0.04
Harborside Securities	19	1	0.05

The CFRS participates in commission recapture programs with BNY Brokerage and Lynch, Jones & Ryan, Inc. Pursuant to these agreements, BNY Brokerage and Lynch, Jones & Ryan agree to refund \$1 to the System for every \$2 of the total brokerage commissions that may be paid to them in connection with such transactions.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
SCHEDULE OF INVESTMENT SUMMARY
Year Ended June 30, 2004
(Dollar Amounts in Thousands)**

TYPE OF INVESTMENT	<u>Fair Value</u>	<u>Percent of total Fair Value</u>
FIXED INCOME:		
Government and Agencies	\$ 12,538	4.78%
Corporate Obligations	11,160	4.25%
Total Fixed Income	<u>23,698</u>	<u>9.03%</u>
COMMON STOCK:		
Consumer Discretionary	16,477	
Consumer Staples	8,227	
Energy	6,997	
Financials	26,021	
Health Care	12,138	
Industrials	11,403	
Information Technology	17,084	
Materials	5,148	
Telecommunication Services	1,915	
Utilities	3,056	
Total Common Stock	<u>108,466</u>	<u>41.31%</u>
MUTUAL FUNDS:	124,561	47.43%
CASH AND CASH EQUIVALENTS:	<u>5,851</u>	<u>2.23%</u>
TOTAL	<u>\$ 262,576</u>	<u>100.00%</u>



ACTUARIAL SECTION

The purpose of the Actuarial Section is to provide the reader with the results of the actuarial valuation at July 1, 2004 and various other actuarial information related to the Charlotte Firefighters' Retirement System. This section includes an actuarial certification, valuation results, asset and contribution information, actuarial assumptions, a summary of plan provisions, long-range funding adequacy information and membership data. The reader of this component unit financial report may note differences between the actuarial valuation of assets contained in this section and the valuation of assets contained in the financial section. The financial statements value assets at the fair value which conforms with generally accepted accounting principles. The actuarial long term yield asset valuation method values assets through a smoothing process of the actual market values for the prior five fiscal years.

October 19, 2004

Board of Trustees
Charlotte Firefighters' Retirement System
428 East Fourth Street
Suite 205
Charlotte, NC 28202

Dear Members of the Board:

We are pleased to submit herewith the results of the annual actuarial valuation of the City of Charlotte Firefighters' Retirement System prepared as of July 1, 2004. The purpose of this report is to provide a summary of the funded status of the System as of July 1, 2004, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Actuarial value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 3.75% annually. The annual required employer contribution rate remains at 13.27% of payroll for the fiscal year ending June 30, 2006. However, it is our understanding that the System will continue funding at the statutory required contribution rate of 12.65%. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution (ARC) of the City under GASB for the fiscal year ending June 30, 2006 is 13.27% of payroll, which will liquidate the unfunded accrued liability over a 30-year period.

We have prepared the Schedule of Active Member Valuation Data, Schedule of Retirants and Beneficiaries Added to and Removed from Rolls, the Solvency Test and the Analysis of Financial Experience for the actuarial section of the Annual Report and the Schedule of Funding Progress and Trend Information for the financial section of the Annual Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

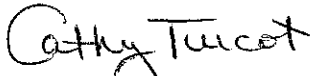
In our opinion the System operated on an actuarially sound basis through the fiscal year ending June 30, 2004. Beginning in the fiscal year ending June 30, 2005, City contributions outlined in Section 25 of Title V of the Act will no longer be sufficient to fund the System in an actuarially sound manner. Assuming that the annual required employer contributions to the System are made by the City from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

We trust that the report will meet the approval of the Board and will furnish the desired information concerning the financial condition of the Retirement System.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary



Catherine G. Turcot
Senior Consultant, Retirement

EAM/CGT:sh

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
REPORT OF ACTUARY
ON THE VALUATION
PREPARED AS OF JULY 1, 2004**

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the current and preceding valuations are summarized below.

Valuation Date	July 1, 2004	July 1, 2003
Number of active members	897	876
Annualized compensation	\$ 44,009,056	\$ 41,354,976
Retired members and beneficiaries:		
Number	435	427
Annual allowances	\$ 14,887,728	\$ 14,512,752
Number of terminated vested members	1	2
Assets:		
Market Value	\$ 263,339,748	\$ 227,136,805
Actuarial Value	274,947,662	261,022,319
Unfunded actuarial accrued liability	\$ 17,393,171	\$ 16,821,205
Amortization Period	30 years	30 years
Fiscal Year Ending	June 30, 2006	June 30, 2005
City annual required contribution rate (ARC):		
Normal (including expenses of 0.75%)	11.19%	11.17%
Accrued liability	<u>2.08</u>	<u>2.10</u>
Total	13.27%	13.27%
Member contribution rate	12.65%	12.65%

2. The major benefit and contribution provisions of the System as reflected in the valuation are summarized in Schedule G. There have been no changes since the previous valuation.
3. Schedule E of this report outlines the full set of actuarial assumptions and methods used in the valuation. There have been no changes since the previous valuation.
4. The entry age actuarial cost method was used to prepare the valuation. Schedule F contains a brief description of the actuarial cost method.
5. Comments on the valuation results as of July 1, 2004 are given in Section IV and further discussion of the contributions is set out in Section V.

SECTION II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The valuation included 897 active members with annualized compensation totaling \$44,009,056.
2. The following table shows the number of retired members and beneficiaries as of July 1, 2004 together with the amount of their annual retirement benefits payable under the System as of that date.

**THE NUMBER AND ANNUAL BENEFITS OF
RETIRED MEMBERS AND BENEFICIARIES
AS OF JULY 1, 2004**

GROUP	NUMBER*	ANNUAL RETIREMENT BENEFITS
Service Retirements	356	\$ 13,273,536
Disability Retirements	62	1,343,268
Beneficiaries of Deceased Members	<u>17</u>	<u>270,924</u>
Total	435	\$ 14,887,728

* In addition, there is one terminated member entitled to deferred vested benefits.

3. Table 1 of Schedule H shows the distribution by age and years of membership service of the number of active members included in the valuation, while Table 2 shows the number and annual benefits of retired members and beneficiaries included in the valuation, distributed by age. Table 3 shows the schedule of active member valuation data and Table 4 shows the schedule of retirants and beneficiaries added to and removed from the rolls.

SECTION III - ASSETS

As of July 1, 2004, the total market value of assets amounted to \$263,339,748. The actuarial value of assets used for the current valuation was \$274,947,662. Schedule C shows the development of the actuarial value of assets as of July 1, 2004. Schedule D shows the allocation of the System's assets and the market value of assets for three years.

SECTION IV - COMMENTS ON VALUATION

1. Schedule B of this report contains the valuation balance sheet which shows the present and prospective assets and liabilities of the System as of July 1, 2004. The valuation was prepared in accordance with the actuarial assumptions set forth in Schedule E and the actuarial cost method which is described in Schedule F.
2. The valuation balance sheet shows that the System has total prospective liabilities of \$403,355,452 of which \$139,470,337 is for the prospective benefits payable on account of present retired members, beneficiaries of deceased members, and terminated members entitled to deferred benefits, and \$263,885,115 is for the prospective benefits payable on account of present active members. Against these liabilities, the System has a total present actuarial value of assets of \$274,947,662 as of July 1, 2004. The difference of \$128,407,790 between the total liabilities and the total present assets represents the present value of future contributions.
3. The contributions to the System consist of normal contributions and accrued liability contributions. The valuation indicates that normal contributions at the rate of 23.09% of payroll are required under the entry age method. Of this amount, 12.65% is paid by the members and the remaining 10.44% is required by the City.
4. Prospective normal contributions at the rate of 23.09% have a present value of \$111,014,619. When this amount is subtracted from \$128,407,790, which is the present value of the total future contributions to be made, there remains \$17,393,171 as the amount of unfunded accrued liability contributions. The development of the unfunded accrued liability is shown in Schedule A.

SECTION V - CONTRIBUTIONS PAYABLE

1. The contributions consist of a normal contribution and an accrued liability contribution as determined by actuarial valuation.
2. The normal contribution rate is calculated as the level percentage of payroll which, if applied for the average new member during the entire period of his anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. On the basis of the valuation the normal contribution rate was determined to be 23.09%.
3. Section 24 of Title V of the Charlotte Firefighters' Retirement System Act states that each member shall contribute an amount equal to the Member's Compensation multiplied by 12.65%.
4. The City normal contribution rate is equal to the difference between the normal contribution rate of 23.09% and the member contribution rate of 12.65%, or 10.44% of payroll. An additional 0.75% is required for expenses, making the total City normal rate 11.19% of payroll.
5. Section 25 of Title V of the Charlotte Firefighters Retirement System Act states that the City of Charlotte shall contribute an amount equal to the Member's Compensation multiplied by 12.65%. Beginning in the fiscal year ending June 30, 2005, these contributions will no longer be sufficient to fund the System in an actuarially sound manner. The required employer contribution rate beginning July 1, 2004, will be 13.27% of payroll.
6. Based on a total employer rate of 13.27%, the annual accrued liability contribution rate is determined to be 2.08% of payroll. This rate will be sufficient to amortize the unfunded actuarial accrued liability within approximately 30 years following the valuation date, on the assumption that the payroll will increase 3.75% each year.

7. The following table summarizes the employer contributions which were determined by the July 1, 2004 valuation and are recommended for use.

**CITY ANNUAL REQUIRED CONTRIBUTIONS (ARC)
FOR FISCAL YEAR ENDING JUNE 30, 2006**

CONTRIBUTION	PERCENTAGE OF ACTIVE MEMBERS' COMPENSATION
Normal (including expenses of 0.75%)	11.19%
Accrued Liability	<u>2.08</u>
Total	13.27%

SECTION VI - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

**NUMBER OF ACTIVE AND RETIRED PARTICIPANTS
AS OF JULY 1, 2004**

GROUP	NUMBER
Retired participants and beneficiaries currently receiving benefits	435
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	1
Active Participants	<u>897</u>
Total	1,333

2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS
Dollar Amounts in Thousands

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/99	\$216,336	\$186,854	\$(29,482)	115.8%	\$32,462	(90.8)%
7/1/00*	235,901	239,784	3,883	98.4	33,080	11.7
7/1/01	246,614	254,767	8,153	96.8	38,079	21.4
7/1/02	254,013	265,712	11,699	95.6	39,849	29.4
7/1/03	261,022	277,843	16,821	93.9	41,355	40.7
7/1/04	274,948	292,341	17,393	94.1	44,009	39.5

* Economic and demographic assumptions were changed as of July 1, 2000 due to an experience review. In addition, the asset valuation method was changed.

3. Following is the calculation of the annual pension cost and net pension obligation for the fiscal year ending June 30, 2004.

Annual Pension Cost and Net Pension Obligation for Fiscal Year Ending 6/30/04

(a) Employer annual required contribution	\$ 5,554,000
(b) Interest on net pension obligation	(549,000)
(c) Adjustment to annual required contribution	<u>(347,000)</u>
(d) Annual pension cost (a) + (b) - (c)	\$ 5,352,000
(e) Employer contributions made for fiscal year ending 6/30/04	<u>5,554,000</u>
(f) Increase (decrease) in net pension obligation (d) - (e)	\$ (202,000)
(g) Net pension obligation beginning of fiscal year	<u>(7,078,000)</u>
(h) Net pension obligation end of fiscal year (f) + (g)	\$ (7,280,000)

TREND INFORMATION
Dollar Amounts in Thousands

Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation (NPO)
June 30, 2002	\$5,024	100.8%	\$(6,883)
June 30, 2003	5,083	103.8	(7,078)
June 30, 2004	5,352	103.8	(7,280)

4. The annual required contribution (ARC) as a percentage of payroll, determined in accordance with the parameters of GASB 25/27, is shown below.

EMPLOYER ANNUAL REQUIRED CONTRIBUTION (ARC)

EMPLOYER ANNUAL REQUIRED CONTRIBUTION (ARC)	Fiscal Year Ending June 30, 2006
Normal (includes expenses)	11.19%
Accrued liability	<u>2.08</u>
Total	13.27%

5. Additional information as of July 1, 2004 follows.

Valuation date	7/1/04
Actuarial cost method	Entry age
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	4.75-7.75%
*Includes inflation at	3.75%
Cost-of-living adjustments	N/A

SECTION VII – EXPERIENCE

1. As an aid to the Board in adopting service and mortality tables, the actuary prepared an experience investigation for the five-year period ending June 30, 1999. The valuation was based on the assumptions adopted by the Board at the April 27, 2000 Board meeting as a result of that investigation.

2. The following table shows the estimated change in the unfunded accrued liability from various factors that resulted in an increase of \$572,000 in the unfunded accrued liability from \$16,821,000 to \$17,393,000 during the fiscal year ending June 30, 2004.

ANALYSIS OF FINANCIAL EXPERIENCE - CHANGE IN UNFUNDED ACCRUED LIABILITY
(in thousands of dollars)

Item	Amount of Increase/ (Decrease)
Interest (7.75%) added to previous unfunded accrued liability	1,304
Accrued Liability Contribution	(632)
Recognized Asset Loss	2,902
Liability (Gain)/ Loss	(992)
Salary Increases	(2,010)
Amendments	0
Asset Method Change	0
Assumption Changes	<u>0</u>
Increase In Unfunded Accrued Liability	572

SCHEDULE A

**DEVELOPMENT OF THE UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JULY 1, 2004**

(1)	Present value of prospective benefits:	
(a)	Present active members	\$ 263,885,115
(c)	Present retired members, beneficiaries and former members entitled to deferred vested benefits	<u>139,470,337</u>
(c)	Total	\$ 403,355,452
(2)	Present value of future System and member normal contributions before expenses	<u>111,014,619</u>
(3)	Actuarial accrued liabilities 1(c) – (2)	\$ 292,340,833
(4)	Actuarial value of assets	<u>274,947,662</u>
(5)	Unfunded actuarial accrued liability (3) – (4)	\$ 17,393,171

SCHEDULE B - VALUATION BALANCE SHEET AND SOLVENCY TEST

VALUATION BALANCE SHEET

**RESULTS OF THE VALUATION AS OF JULY 1, 2004
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES
OF THE CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM**

ACTUARIAL LIABILITIES

Present value of prospective benefits payable on account of present retired members, beneficiaries of deceased members, and terminated members entitled to deferred benefits	\$ 139,470,337
Present value of prospective benefits payable on account of present active members	<u>\$ 263,885,115</u>
Total liabilities	<u>\$ 403,355,452</u>

PRESENT AND PROSPECTIVE ASSETS

Actuarial value of assets	\$ 274,947,662
Present value of future contributions	
City and member normal contributions	111,014,619
Unfunded accrued liability contributions	<u>17,393,171</u>
Total prospective contributions	\$ 128,407,790
Total assets	<u>\$ 403,355,452</u>

SCHEDULE B (cont'd)

**SOLVENCY TEST
(\$ millions)**

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
7/1/04	\$46.7	\$139.5	\$106.1	\$274.9	100%	100%	83.6%
7/1/03	42.5	137.3	98.0	261.0	100	100	82.9
7/1/02	39.7	130.5	95.5	254.0	100	100	87.7
7/1/01	37.7	121.1	96.0	246.6	100	100	91.5
7/1/00*	34.0	123.8	82.0	235.9	100	100	95.2
7/1/99	32.3	87.9	66.7	216.3	100	100	100.0
7/1/98	31.1	79.6	68.7	187.4	100	100	100.0
7/1/97	29.4	73.6	65.1	161.7	100	100	90.2
7/1/96	28.1	68.3	64.8	142.9	100	100	71.7
7/1/95	26.1	63.7	61.9	129.0	100	100	63.4

All figures prior to July 1, 1999 are from the July 1, 1998 actuarial report prepared by the prior actuary.

* Economic and demographic assumptions were changed as of July 1, 2000 due to an experience review. In addition, the asset valuation method was changed.

SCHEDULE C

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial Value of Assets as of July 1, 2003	\$ 261,022,319
(2)	2003/2004 Net Cash Flow	
	(a) Contributions	11,653,184
	(b) Disbursements	<u>14,928,186</u>
	(c) Net Cash Flow	
	(2)a - (2)b	(3,275,002)
(3)	Expected Investment Return [(1) x .0775] + [(2)c x .03875]	20,102,324
(4)	Expected Actuarial Value of Assets as of July 1, 2004 (1) + (2)c + (3)	277,849,641
(5)	Market Value of Assets as of July 1, 2004	263,339,748
(6)	Excess of Market Over Expected (5) - (4)	(14,509,893)
(7)	20% Adjustment Towards Market .20 x (6)	(2,901,979)
(8)	Actuarial Value of Assets as of July 1, 2004 (4) + (7)	\$ 274,947,662
(9)	Rate of Return on Market Value	17.51%
(10)	Rate of Return on Actuarial Value	6.63%

SCHEDULE D

ASSET INFORMATION

Investment Managers	Type of Investment	Percent Allocation
Evergreen Investment Management Company	Value Equity – Large Capitalization	15.1%
Boston Partners Asset Management	Value Equity – Mid Capitalization	9.0%
Investment Counselors of Maryland	Value Equity – Small Capitalization	3.7%
Alliance Bernstein Capital Management	Growth Equity – Large Capitalization	10.0%
Cadence Capital Management	Growth Equity – Mid Capitalization	8.1%
Banc of America Capital Management	Growth Equity – Small Capitalization	3.5%
SSGA S&P 500 Flagship Fund	Large Capitalization	4.6%
Morgan Stanley Dean Witter	International Equity Fund Emerging Markets Equity Fund	13.1% 1.9%
T. Rowe Price International, Inc.	International Equity Fund	3.0%
Metropolitan Life Insurance Company	Real Estate Equity Fund	5.0%
Barrow, Hanley, McWhinney & Strauss	Fixed Income	9.4%
State Street Global Advisors	Fixed Income Index Fund	9.2%
Baring Asset Management	International Fixed Income Fund Emerging Debt Fund	3.0% 0.5%
Internal Management	Money Market	1.0%

	June 30, 2004	June 30, 2003	June 30, 2002
Cash	\$ (848,933)	\$ 526,430	\$ (9,186,275)
Cash Equivalents	6,699,784	6,892,425	15,066,403
Fixed Income Investments	47,824,541	48,349,199	58,935,800
Equity Investments	208,900,164	171,604,466	158,815,054
Other	338,520	355,927	373,334
Accrued Income	319,498	310,373	409,094
Accrued Contributions	438,629	256,099	118,234
Accrued Liabilities/Expenses	(332,455)	(1,158,115)	(520,037)
Total Market Value	\$ 263,339,748	\$ 227,136,805	\$ 224,011,606

SCHEDULE E

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods used in the valuation were selected by the Actuary and adopted by the Board April 27, 2000 unless otherwise indicated.

INVESTMENT RATE OF RETURN: 7.75% per year, compounded annually. (adopted 10-26-2000)

SALARY INCREASES: Representative values of the assumed annual rates of salary increases (adopted 10-26-2000) are as follows:

<u>Age</u>	<u>Rate*</u>
20	7.75%
25	7.75
30	7.75
35	7.25
40	6.25
45	4.75
50	4.75
55	4.75

* Includes inflation of 3.75%

SEPARATIONS FROM ACTIVE SERVICE: For death rates, the UP 1994 Male Table was used. Representative values of the assumed annual rates of separation from active service are as follows:

<u>Age</u>	<u>Annual Rate of</u>		
	<u>Withdrawal</u>	<u>Disability*</u>	<u>Death</u>
20	2.0%	0.05%	.0006%
25	2.0	0.05	.0007
30	2.0	0.09	.0009
35	2.0	0.23	.0009
40	1.7	0.41	.0012
45	0.8	0.61	.0017
50		1.00	.0028
55		1.00	.0048

* 65% of the disabilities are assumed to be in the line of duty.

<u>Annual Rate of Retirement*</u>			
<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
50-54	20%	60	20%
55	20	61	20
56	20	62	20
57	20	63	20
58	20	64	20
59	20	65	100

* An additional 30% are assumed to retire at the age when first eligible for unreduced retirement and 100% are assumed to retire after completing 30 years of membership service.

DEATHS AFTER RETIREMENT: The UP 1994 Male Table is used for the period after retirement and for dependent beneficiaries. The same table is used for the period after disability set forward five years.

EXPENSES: 0.75% of payroll.

PERCENT MARRIED: 100% of active members are assumed to be married with the male three years older than his spouse.

ASSETS: Actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected actuarial value. (adopted 10-26-2000)

VALUATION METHOD: Entry age actuarial cost method (adopted 7-1-98). See Schedule F for a brief description of this method.

SCHEDULE F

ACTUARIAL COST METHOD

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future (currently 7.75 per cent), of each member's expected benefits at retirement or death is determined, based on age, service and sex. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable from the System on account of the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the entry age actuarial cost method. Under this method, a calculation is made to determine the level percentage of payroll which, if applied for the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the System.

SCHEDULE G

SUMMARY OF MAIN SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

Member	An employee of the Charlotte Fire Department who is subject to the provisions of the Civil Service Act.
Membership Service Credit	Service for all periods of employment with the Charlotte Fire Department for which contributions have been paid.
Final Average Salary	A member's average monthly compensation for any 2 consecutive years within the last 5 years of membership service.
Accrued Benefit	The monthly amount of retirement benefits earned by a member as of any date computed on his Final Average Salary and Membership Service Credit at that date.
Service Retirement Benefit	
Eligibility	Age 50 and 25 years of membership service credit, age 60 and 5 years of membership service credit or 30 years of membership service credit.
Benefit	Monthly benefit is 2.6% of final average salary multiplied by years of membership service credit. Salary in the final year includes cashed-in vacation and sick days. The minimum monthly benefit is \$902.75.
Early Retirement Benefit	
Eligibility	25 years of membership service credit.
Benefit	Accrued benefit reduced by 3% for each year member is under age 50.
In the Line of Duty Disability Retirement Benefit	
Eligibility	No requirements.
Benefit	78% of final average salary or normal retirement benefit if greater.
Not in the Line of Duty Disability Retirement Benefit	
Eligibility	10 years of service.
Benefit	39% of final average salary plus 1.95% of such salary for each year of membership service credit in excess of 10 years, not less than \$902.75 per month.

**Deferred Vested
Retirement Benefit**

Eligibility

5 years of service. Member contributions not withdrawn.

Benefit

Accrued benefit payable at age 60. A member may choose a refund of contributions with 4% interest in lieu of this benefit.

Termination Benefit

If a member is terminated with less than 5 years of membership service credit, he is entitled to a return of his accumulated contributions.

Death Benefit

If a member dies in service, his beneficiary is entitled to a return of the member's accumulated contributions, plus those contributions made by the City on his behalf, plus interest of 4% per year. May elect to receive actuarial equivalent monthly benefit under the 66-2/3% Joint and Survivor Option.

Optional Forms of Benefit

- (1) 10 year certain and life annuity.
- (2) 100%, 75%, 66-2/3% or 50% joint and survivorship annuity.
- (3) Joint and survivorship annuity with a pop-up provision.

Contributions

The City and the members each contribute 12.65%.

SCHEDULE H

TABLE 1

AGE - SERVICE TABLE

Distribution of Active Members as of July 1, 2004 by Age and Service Groups

Attained Age	Completed Years of Service									Total
	0	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	≥ 35	
24 & under	7	36	1							44
Total Pay	217,932	1,222,364	37,284							1,477,580
Avg. Pay	31,133	33,955	37,284							33,581
25 to 29	9	83	38							130
Total Pay	287,196	2,923,544	1,645,124							4,855,864
Avg. Pay	31,911	35,223	43,293							37,353
30 to 34	5	54	74	27	1					161
Total Pay	159,796	1,930,864	3,427,840	1,505,244	65,312					7,089,056
Avg. Pay	31,959	35,757	46,322	55,750	65,312					44,031
35 to 39	2	16	60	38	54					170
Total Pay	64,532	597,428	2,749,500	2,104,700	3,049,800					8,565,960
Avg. Pay	32,266	37,339	45,825	55,387	56,478					50,388
40 to 44		6	19	34	94	27				180
Total Pay		217,152	829,140	1,833,156	5,328,388	1,598,324				9,806,160
Avg. Pay		36,192	43,639	53,916	56,685	59,197				54,479
45 to 49		3	5	14	45	48	16			131
Total Pay		108,316	213,928	777,764	2,457,312	2,874,404	946,920			7,378,644
Avg. Pay		36,105	42,786	55,555	54,607	59,883	59,183			56,326
50 to 54		1	1	3	14	14	26	4		63
Total Pay		30,680	47,580	180,960	781,196	801,840	1,635,140	248,404		3,725,800
Avg. Pay		30,680	47,580	60,320	55,800	57,274	62,890	62,101		59,140
55 to 59				2	5		4	3		14
Total Pay				95,316	256,048		217,256	193,440		762,060
Avg. Pay				47,658	51,210		54,314	64,480		54,433
≥ 60					1				3	4
Total Pay					45,344				302,588	347,932
Avg. Pay					45,344				100,863	86,983
Total	23	199	198	118	214	89	46	7	3	897
Total Pay	729,456	7,030,348	8,950,396	6,497,140	11,983,400	5,274,568	2,799,316	441,844	302,588	44,009,056
Avg. Pay	31,715	35,328	45,204	55,061	55,997	59,265	60,855	63,121	100,863	49,062

TABLE 2
NUMBER OF RETIRED MEMBERS AND BENEFICIARIES
AND THEIR BENEFITS BY AGE

<u>Attained Age</u>	<u>Number Of Members</u>	<u>Total Annual Benefits</u>	<u>Average Annual Benefit</u>
50 & Under	20	\$ 517,344	\$ 25,867
51-55	79	3,054,360	38,663
56-60	104	3,618,456	34,793
61-65	72	2,780,052	38,612
66-70	68	2,518,332	37,034
71-75	37	1,122,624	30,341
76-80	33	829,980	25,151
Over 80	<u>22</u>	<u>446,580</u>	<u>20,299</u>
Total	435	\$ 14,887,728	\$ 34,225

TABLE 3
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number Prior Year</u>	<u>Exits</u>	<u>New Entrants</u>	<u>Number Current Year</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
7/1/04	876	17	38	897	\$44,009,056	\$49,062	3.9%
7/1/03	856	29	49	876	41,354,976	47,209	1.4
7/1/02	853	31	34	856	39,848,691	46,552	4.3
7/1/01	780	15	88	853	38,079,024	44,641	5.3
7/1/00	783	35	32	780	33,079,899	42,410	2.3
7/1/99	778	31	36	783	32,462,456*	41,459	11.4
7/1/98	749	30	59	778	28,963,868	37,229	3.6
7/1/97	721	29	57	749	26,922,035	35,944	-0.6
7/1/96	709	25	37	721	26,072,828	36,162	3.7
7/1/95	N/A	N/A	N/A	709	24,723,956	34,872	4.7

Results prior to the 7/1/99 valuation were provided by the prior actuary.

* Reflects all pay raises granted to firefighters effective July 7, 1999.

TABLE 4

SCHEDULE OF RETIRED MEMBERS AND BENEFICIARIES
ADDED TO AND REMOVED FROM ROLLS

Year Ended	Rolls - Beginning of Year		Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
7/1/04	427	\$14,512,752	16	\$ 629,172	8	\$254,196	435	\$14,887,728	2.6	\$34,225
7/1/03	411	13,754,121	23	970,560	7	211,929	427	14,512,752	5.5	33,988
7/1/02	389	12,824,893	29	1,202,320	7	273,092	411	13,754,121	7.2	33,466
7/1/01	394	13,000,973**	11	287,966	16	464,046	389	12,824,893	(1.4)	32,969
7/1/00	377	9,946,747*	28	3,260,650**	11	206,424	394	13,000,973**	30.7	32,997
7/1/99	358	8,882,634	26	950,857	7	119,640	377	9,946,747*	12.0	26,384
7/1/98	337	8,199,997	24	762,314	3	79,677	358	8,882,634	8.3	24,812
7/1/97	321	7,602,561	22	698,791	6	101,335	337	8,199,997	7.9	24,332
7/1/96	307	7,046,272	19	616,589	5	60,300	321	7,602,561	7.9	23,684
7/1/95	298	6,552,767	18	613,085	9	119,580	307	7,046,272	7.5	22,952

Results prior to the 7/1/99 valuation were provided by the prior actuary.

- * Includes 8.33% benefit adjustment effective July 1, 1998 for members retired prior to July 1, 1989.
- ** Includes ad hoc benefit adjustments granted since the previous valuation.



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STATISTICAL SECTION

The purpose of the Statistical Section is to provide the reader with additional data reflecting financial and demographic trends. This section includes a schedule of average benefit payments, a schedule of retired members by type of benefit and a schedule of benefit expenses by type. It also includes information on certain participant activity during the year being reported.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
PARTICIPANT INFORMATION
Year Ended June 30, 2004**

SERVICE RETIREMENTS

Name	Date of Retirement
Baker, Harry P.	12/27/2003
Cochran Sr., William B.	12/06/2003
Freeze, Craig B.	07/19/2003
Gaskin, Charles E.	12/27/2003
Gettis, Jack T.	12/20/2003
Lewis, Douglas A.	05/08/2004
McDonald, Robert W.	12/27/2003
Murray, Edward W.	12/20/2003
Smith, Frederick O.	12/20/2003

VESTED DEFERRED RETIREMENTS

Name	Date of Retirement
Harwell, Jackson E.	10/11/2003

EARLY RETIREMENTS

Name	Date of Retirement
Barefoot, Jeffrey D.	05/15/2004
Harris, Robert A.	12/20/2003
Jarrell, Steven L.	07/12/2003

DISABILITY RETIREMENTS

Name	Date of Retirement
James, Jimmie	10/02/2003

**IN MEMORIAM
Active Deaths**

Name	Date of Death
Franklin, Mark T.	11/30/2003

**IN MEMORIAM
Retiree Deaths**

Name	Date of Death
Brooks, David F.	05/02/2004
Crocker, James R.	07/29/2003
Fincher, Kenneth R.	07/20/2003
Hilton, Charles E.	01/25/2004
Honeycutt, Robert E.	03/11/2004
Knight, Mendell L.	03/04/2004
McCall, Robert D.	03/09/2004
Pace, Jack B.	12/09/2003

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**

SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE

for Fiscal Years Ended June 30

(Dollar Amounts in Thousands)

Revenues by Source and Expenses by Type

Fiscal Year	Revenues by Source				Expenses by Type				Employer Contributions as a Percentage of Covered Payroll
	Employee Contributions	Employer Contributions	Investment Income	Total Revenues	Benefits	Administrative Expenses	Refunds	Total Expenses	
1995	\$ 3,221	\$ 3,219	\$ 5,396	\$ 11,836	\$ 6,530	\$ 689	\$ 597	\$ 7,816	12.65
1996	3,374	3,372	13,481	20,227	7,456	753	438	8,647	12.65
1997	3,489	3,488	31,079	38,056	8,278	222	167	8,667	12.65
1998	3,758	3,734	35,641	43,133	9,217	232	420	9,869	12.65
1999	3,886	3,870	20,665	28,421	10,284	253	165	10,702	12.65
2000	4,325	4,276	29,233	37,834	12,406	304	85	12,795	12.65
2001	4,563	4,537	(14,630)	(5,530)	14,060	327	391	14,778	12.65
2002	5,114	5,062	(11,825)	(1,649)	13,605	364	275	14,244	12.65
2003	5,640	5,278	7,190	18,108	14,138	402	443	14,983	12.65
2004	6,099	5,554	39,495	51,148	14,549	355	41	14,945	12.65

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
SCHEDULE OF BENEFIT EXPENSES BY TYPE
for Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

Fiscal Year Ending	Age & Service Benefits			Death in Service Benefits	Retiree Disability Benefits			Refunds Death	Refunds Separation	Total
	Retirees	Survivors	QDROs		Duty	Non-duty	Survivor			
1995	\$5,662	\$36	\$23	0	\$296	\$490	\$0	\$23	\$597	\$7,127
1996	6,592	38	24	0	295	507	0	178	260	7,894
1997	7,298	86	24	0	310	561	0	0	167	8,446
1998	8,121	92	34	0	330	635	5	174	247	9,638
1999	9,044	95	34	0	364	735	12	0	165	10,449
2000	10,931	127	26	0	483	827	12	0	85	12,491
2001	12,440	180	24	0	511	873	32	0	391	14,451
2002	12,076	143	23	0	522	797	44	10	265	13,880
2003	12,545	163	29	0	554	804	43	311	132	14,581
2004	12,952	189	32	0	542	793	41	0	41	14,590

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA**
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
as of June 30, 2004

Amount of Monthly Benefit	Number of Retirees	Type of Retirement									Option Selected							
		1	2	3	4	5	6	7	8	9	Basic	Opt.1	Opt.2	Opt.3	Opt.4	Opt.5	Opt.6	
Deferred	1								1									
\$ 1 - 500	3	1				1	1										2	
501 - 600	2											2						
601 - 700	1							1										
701 - 800	1													1				
801 - 900	2									2								
901-1000	3			1						2								
Over 1000	423	284	71	8		23	36							1				
Totals	436	285	71	9	0	24	38	4	1	4	337	9	9	4	0	64	13	

Type of Retirement

- 1 - Service Retirement
- 2 - Early Retirement
- 3 - Survivor payment - normal or early retirement
- 4 - Survivor payment - death in service
- 5 - Duty disability retirement
- 6 - Non-duty disability retirement
- 7 - Survivor payment - disability retirement
- 8 - Former member with deferred future benefit
- 9 - Spouse payment - QDRO

Option Selected

- Basic - Basic Benefit
- Option 1 - 10CC
- Option 2 - 100% Joint Survivor
- Option 3 - 75% Joint Survivor
- Option 4 - 66.67% Joint Survivor
- Option 5 - 50% Joint Survivor
- Option 6 - Joint Survivor with Reversion to Basic

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
SCHEDULE OF AVERAGE BENEFIT PAYMENTS
for Fiscal Years Ended June 30**

	Membership Service Credit					
	<u>5-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30 +</u>
Period 7/1/1994 to 6/30/1995						
Average Monthly Benefit	\$ 1,458	\$ 993	\$ 967	\$ 1,280	\$ 1,701	\$ 2,514
Average Final Average Salary	2,025	1,495	1,535	2,056	2,479	3,073
Number of Active Retirants	1	10	8	25	152	111
Period 7/1/1995 to 6/30/1996						
Average Monthly Benefit	\$ 1,458	\$ 993	\$ 1,046	\$ 1,280	\$ 1,817	\$ 2,531
Average Final Average Salary	2,025	1,495	1,736	2,056	2,667	3,094
Number of Active Retirants	1	10	9	25	165	111
Period 7/1/1996 to 6/30/1997						
Average Monthly Benefit	\$ 1,458	\$ 1,053	\$ 1,182	\$ 1,303	\$ 1,902	\$ 2,585
Average Final Average Salary	2,025	1,578	2,123	2,112	2,790	3,178
Number of Active Retirants	1	11	11	25	179	110
Period 7/1/1997 to 6/30/1998						
Average Monthly Benefit	\$ 1,458	\$ 1,056	\$ 1,268	\$ 1,413	\$ 1,975	\$ 2,602
Average Final Average Salary	2,025	1,696	2,321	2,362	2,925	3,203
Number of Active Retirants	1	12	12	30	192	111
Period 7/1/1998 to 6/30/1999						
Average Monthly Benefit	\$ 1,579	\$ 1,137	\$ 1,374	\$ 1,498	\$ 2,119	\$ 2,735
Average Final Average Salary	2,025	1,779	2,321	2,362	3,095	3,322
Number of Active Retirants	1	13	12	30	207	114
Period 7/1/1999 to 6/30/2000						
Average Monthly Benefit	\$ 0	\$ 1,428	\$ 1,616	\$ 1,856	\$ 2,611	\$ 3,508
Average Final Average Salary		1,945	2,395	2,282	3,229	3,401
Number of Active Retirants		15	13	27	224	116
Period 7/1/2000 to 6/30/2001						
Average Monthly Benefit	\$ 0	\$ 1,389	\$ 1,669	\$ 1,826	\$ 2,621	\$ 3,531
Average Final Average Salary		2,049	2,684	2,386	3,277	3,439
Number of Active Retirants		16	13	28	223	111
Period 7/1/2001 to 6/30/2002						
Average Monthly Benefit	\$ 2,291	\$ 1,389	\$ 1,669	\$ 2,017	\$ 2,621	\$ 3,531
Average Final Average Salary	3,112	2,049	2,684	2,761	3,277	3,439
Number of Active Retirants	1	16	13	33	237	113
Period 7/1/2002 to 6/30/2003						
Average Monthly Benefit	\$ 2,291	\$ 1,343	\$ 1,595	\$ 2,026	\$ 2,759	\$ 3,571
Average Final Average Salary	3,112	2,049	2,684	2,793	3,571	3,621
Number of Active Retirants	1	16	13	34	253	112
Period 7/1/2003 to 6/30/2004						
Average Monthly Benefit	\$ 413	\$ 1,264	\$ 1,662	\$ 2,080	\$ 2,800	\$ 3,603
Average Final Average Salary	3,112	2,115	2,845	2,914	3,656	3,680
Number of Active Retirants	1	17	14	34	257	113

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM, A COMPONENT UNIT OF
THE CITY OF CHARLOTTE, NORTH CAROLINA
SCHEDULE OF BONUS HISTORY
for Years Ended June 30
(Dollar Amounts in Thousands)**

<u>Year</u>	<u>Bonus Distribution</u>	<u>Annual Benefits</u>	<u>Retirees</u>	<u>Bonus Percentage</u>	<u>Consumer Price Index*</u>
1991	\$ 115	\$ 4,236	237	2.71%	6.1%
1992	90	4,892	255	1.84%	3.1%
1993	69	6,339	292	1.10%	2.9%
1994	65	6,429	292	1.01%	2.7%
1995	109	6,641	294	1.65%	2.7%
1996	366	7,388	312	4.95%	2.5%
1997	600	7,948	331	7.55%	3.3%
1998	734	8,753	357	8.33%	1.6%
1999	808	9,733	371	8.33%	1.9%
2000	1,070	12,998	398	8.33%	3.2%
2001	197	13,064	395	1.50%	1.3%
**2002	-	-	-	-	0.7%
**2003	-	-	-	-	2.1%
**2004	-	-	-	-	3.2%

Average Percentage of Bonus Amount Per Retiree over 14-year Period: 3.38%
Average Percentage of Bonus Amount Per Retiree over 5-year Period : 1.97%

*Source: Callan Associates, Inc.

**Pursuant to the Actuary's recommendations, the Board of Trustees did not approve bonuses for 2002, 2003 and 2004.



GLOSSARY OF TERMS

This section is to provide the reader with definitions and/or explanations of key financial, actuarial and investment terms used or referenced throughout the report.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
GLOSSARY OF KEY ACTUARIAL, FINANCIAL AND INVESTMENT TERMS**

ACCRUED BENEFIT

The amount of a pension plan participant's benefit (whether or not vested) as of a specified date, determined in accordance with the terms of the pension plan and based on compensation (if applicable) and service to that date.

ACTIVE PARTICIPANTS

Eligible individuals who have hours of service and make contributions to a retirement plan.

ACTUARIAL ACCRUED LIABILITY

The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Sometimes referred to as "accrued liability".

ACTUARIAL ASSUMPTIONS

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

ACTUARIAL PRESENT VALUE (APV)

The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

ACTUARIAL VALUATION

An examination by an actuary of a group of people, with regard to certain characteristics of the people in that group. Some of the characteristics are age, service, salaries, rate of turnover by death or termination. The actuary can then determine whether contributions are sufficient to fund liabilities earned.

AMENDMENT

Changes made to an existing plan.

AMORTIZE

To pay off an interest-discounted amount with periodic payments of interest and principal as opposed to paying off with a lump sum payment.

AUDIT

An examination by someone or some firm outside an organization of the accounting records developed by the staff of the organization. Recommendations and suggestions for better record keeping and management are often part of an audit.

AUDITOR

A certified public accountant who examines an organization's accounting records according to a set of procedures and issues a report.

BENEFICIARY/BENEFICIARIES

The person(s) to whom a share of a deceased participant's account balance is payable.

BENEFITS

Payments to which participants may be entitled under a pension plan, including pension benefits, death benefits and benefits due on termination of employment.

CALLAN REAL ESTATE MEDIAN

A database comprised totally of the open-end funds of banks and insurance companies.

CITICORP EXTENDED MARKET BOND (EMB) MARKET EX-US

An index that is comprised of the bottom 20% of the cumulative available market capital of the Citicorp (previous Salomon Smith Barney) Broad Market Index. The EMB ex-US defines the small stock index.

CITICORP NON-US DOLLAR WORLD BOND INDEX

An index that is composed of the Citicorp (formerly Salomon Brothers) World Bond Index excluding U.S. bonds. The index consists of Government bonds, Eurobonds and foreign bonds rated at least AA with remaining maturities of 5 or more years. The index is weighted by the outstanding principal amount of

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
GLOSSARY OF KEY ACTUARIAL, FINANCIAL AND INVESTMENT TERMS**

each issue and is expressed in terms of U.S. dollars.

COMPENSATION

The amount of a participant's taxable and nontaxable wages that is considered for purposes of a certain employee benefit requirement.

CONSUMER PRICE INDEX (CPI)

A measure of the average change in prices for a fixed market basket of goods and services. This market basket is based on the spending patterns of urban wage earners and clerical workers, who represent 40 percent of the total civilian population.

COST-OF-LIVING ADJUSTMENT (COLA)

Provision for the adjustment of payment designed to offset changes in the cost of living, usually as measured by the consumer price index.

CUSTOM MIDCAP VALUE INDEX

A customized mid cap value index consisting of 50 percent of the Standard and Poor's Mid Cap Value and 50 percent of the Russell Mid Cap Value.

DEFINED BENEFIT PENSION PLAN

A pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors, such as age, years of service and/or compensation.

DISABILITY

Inability to pursue an occupation because of physical or mental impairment.

DISCOUNT RATE

The rate used to adjust a series of future payments to reflect the time value of money. For the purpose of calculating the pension benefit obligation defined by G.A.S.B., this rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.

DIVERSIFICATION

The practice of investing in several different businesses, industries and classes of investment securities in order to minimize total portfolio risks.

EARLY RETIREMENT

Provision made in a retirement plan to allow employees who have met certain conditions, such as length of service and specified age, to retire prior to their regularly scheduled retirement age. In general, in case of such early retirement, the benefits which a participant can expect to receive from the plan will be less than those offered at full retirement age.

FIDUCIARY FUND TYPE

The trust and agency funds used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other government units and/or other funds.

FRMS UNIVERSE INDEX

An index composed of all common stock issues used in the Fundamental Risk Measurement Service (FRMS) by Barra. The index contains about 5,700 companies and is capitalization-weighted. This index was terminated by Barra as of September 30, 1999.

FUNDING RATIO

The actuarial value of benefit obligations accrued to date, compared to the pension plan assets expressed as a percentage.

GASB

Governmental Accounting Standards Board is the body which creates the various accounting standards for governmental and non-profit organizations. Currently based in Norwalk, Connecticut.

INVESTMENT POLICY

A formal statement outlining the broad investment objectives of the plan.

**CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
GLOSSARY OF KEY ACTUARIAL, FINANCIAL AND INVESTMENT TERMS**

**LEHMAN BROTHERS AGGREGATE
BOND INDEX**

An index that is a combinations of the Mortgage Backed Securities Index and the intermediate and long-term components of the Government/Corporate Bond Index. The Government/Corporate Index, in turn, is a composite of all publicly issued, fixed rate, nonconvertible, domestic bonds. The issues are rated at least BBB, have a minimum outstanding principal of \$100 million for U.S. Government issues or \$50 million for other bonds and have a maturity of at least one year. The index is capitalization-weighted.

LEVEL-COST FINANCING

A method of financing a retirement system in which contributions, as a percentage of payroll, remain level from generation to generation, if benefit provisions are not changed.

**MERRILL LYNCH 1-3 YEAR
GOVERNMENT CORPORATE BOND
INDEX**

An unmanaged index trading short-term U.S. government securities and short-term domestic investment-grade corporate bonds with maturities between 1 and 2.99 years.

**MORGAN STANLEY CAPITAL
INTERNATIONAL EAFE INDEX**

An index that is composed of approximately 1,000 equity securities representing stock exchanges of Europe, Australia, New Zealand and the Far East. The index is capitalization-weighted, includes currency changes and is expressed in terms of U.S. dollars.

**MORGAN STANLEY CAPITAL
INTERNATIONAL EMERGING
MARKETS**

FREE INDEX

An index composed of about 549 equity securities representing the stock exchanges of 13 countries in Central Asia and the Far East, Latin America, Europe, and the Middle East. Only 20 percent of Korea's market capitalization is included in the index. The index is market capitalization-weighted and is expressed in terms of U.S. dollars.

NCREIF INDEX

The National Council of Real Estate Investment Fiduciaries (NCREIF) calculates a number of real estate benchmarks. This core index is comprised of return series of various properties in each region of the U.S. The index comprises properties by type and subtype by region and division. The return series analyzes appreciation, income, market value and total return. This benchmark is compiled on a one-quarter lag basis.

NET PENSION OBLIGATION (NPO)

The standardized measure of funding status and progress required by the GASB to be disclosed in the notes to the financial statements. It is the actuarial present value of credited projected benefits, prorated on service and is counted at a rate equal to the expected return on present and future plan assets.

NORMAL COST

The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method. This amount does not include any payment related to an unfunded actuarial accrued liability. For plans financed in part by employee contributions, normal cost ordinarily refers to the total of employee contributions and employer normal cost.

PENSION CONTRIBUTION

The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations

PORTFOLIO

The total of all investments held.

PRUDENT PERSON

Requires that a plan fiduciary use the "care, skill and diligence" that would be used by a reasonably prudent person familiar with "such matters". While essentially an extension of the common-law requirement of good faith in handling other people's money, it creates a "prudent expert" test that places an additional burden on the plan sponsor---to know what a

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM GLOSSARY OF KEY ACTUARIAL, FINANCIAL AND INVESTMENT TERMS

person in this position of responsibility should know, rather than a reliance on the knowledge level of the general populace.

QUALIFIED DOMESTIC RELATIONS ORDER (QDRO)

A domestic relations order that creates or recognizes the existence of an alternate payee's right or assigns an alternate payee the right to receive all or a portion of the benefits payable with respect to a participant under a qualified retirement plan, and that it complies with certain special requirements. Only a spouse, former spouse or dependent can be the alternate payee.

RISK

The possibility that the expected rate of return may not be attained for the total portfolio or for specific asset classes.

RUSSELL 2000 INDEX

An index composed of the 2000 smallest stocks in the Russell 3000 Index, representing approximately 11 percent of the U.S. equity market capitalization.

RUSSELL 3000 Index

The Russell 3000 Index offers investors access to the broad U.S. equity universe representing approximately 98% of the U.S. market. The Russell 3000 is constructed to provide a comprehensive, unbiased and stable barometer of the broad market. It is completely reconstituted annually to ensure new and growing equities are reflected.

SECTION 415

Sets out the maximum contribution and benefit limitations of the Internal Revenue Code for qualified plans.

STANDARD AND POOR'S 500 INDEX

An index that is a composite of 400 industrial, 40 financial, 40 utility and 20 transportation common stocks. The index is capitalization-weighted with each stock weighted by its proportion of the total market value of all 500 issues. Thus, larger companies have a greater effect on the index.

TOTAL RATE OF RETURN

Cash income plus capital appreciation, less capital depreciation, realized and unrealized, adjusted for capital contributions and withdrawals expressed as a percentage on an accrual basis.

TOTAL REAL ESTATE FUNDS

A database that consists of both open and closed-end commingled funds managed by real estate firms. The returns represent the overall performance of commingled institutional capital invested in real estate properties.

TREASURY BILLS

Short-term direct obligations of the U.S. Government, usually issued with maturities of three months, six months, or one year. Because of their safety and liquidity, Treasury bills are often used as risk-free proxies in portfolio analytics.

TRUSTEE

A fiduciary holding property on behalf of another. An individual with the responsibility of administering all aspects of a pension fund.

UNFUNDED ACTUARIAL ACCRUED LIABILITIES

The difference between actuarial accrued liabilities and valuation assets. Sometimes referred to as "unfunded actuarial liability" or "unfunded accrued liability".

VESTED BENEFIT

A benefit for which the employer has an obligation to make payment even if an employee terminates; thus, the benefit is not contingent on an employee's future service.

WILSHIRE 5000 TOTAL MARKET INDEX

An index which measures the performance of all U.S. headquartered equity securities with readily available price data. Over 7,000 capitalization weighted security returns are used to adjust the index. The Wilshire 5000 base is its 12/31/80 capitalization of \$1,404,596 billion. Therefore, the index is an excellent approximation of dollar changes in the U.S. equity market.