

**Louisiana State Police Pension  
and Retirement System  
Baton Rouge, Louisiana  
June 30, 2007**

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

Release Date 10/17/07

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September 18, 2007

**Independent Auditor's Report**

Members of the Board of Trustees  
Louisiana State Police Pension and Retirement System  
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of plan net assets of the

**Louisiana State Police Pension and Retirement System  
Baton Rouge, Louisiana**

a component unit of the State of Louisiana, as of June 30, 2007 and 2006, and the related statements of changes in plan net assets for the years 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 Louisiana State Police Pension and Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana State Police Pension and Retirement System as of June 30, 2007 and 2006, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2007, on our consideration of the Louisiana State Police Pension and Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana State Police Pension and Retirement System's basic financial statements. The accompanying financial information listed in the Table of Contents as Supporting Schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Louisiana State Police Pension and Retirement System. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Yours truly,

*Hawthorn, Weymouth & Carroll, L.L.P.*

## Louisiana State Police Pension and Retirement System Management's Discussion and Analysis

The following discussion and analysis of the Louisiana State Police Pension and Retirement System ("Retirement System") for the year ended June 30, 2007 highlights relevant aspects of the basic financial statements and provides an analytical overview of the Retirement System's financial activities.

### Financial Highlights

The net assets held in trust for pension benefits increased by \$78.3 million, or 21%. The increase was almost entirely due to the continued upturn in the domestic and international equity markets.

The Retirement System had net investment income of \$63.7 million in 2007, compared to net investment income of \$25.6 million in 2006.

The amount of benefit payments increased \$3.4 million from the amount paid in the previous year.

### Overview of the Financial Statements

Management's Discussion and Analysis is intended to serve as an introduction to the Retirement System's basic financial statements, together with the related notes to the financial statements, required supplementary information, and the supporting schedules, all of which are described below:

Statements of Plan Net Assets - This statement reports the Retirement System's assets, liabilities, and resultant net assets held in trust for pension benefits. This statement should be read with the understanding that it presents the Retirement System's financial position on June 30, 2007 and 2006.

Statements of Changes in Plan Net Assets - This statement reports the results of operations during the fiscal years, categorically presenting the additions to and deductions from plan net assets. The net increase in plan assets on this statement supports the change in net assets held in trust for pension benefits on the Statements of Plan Net Assets.

Notes to the Financial Statements - The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements. A description of the information provided in the notes follows:

Note 1 (Plan Description) Provides a general description of the Retirement System. Information is included regarding the board of trustees, plan membership, a description of basic retirement benefits, the Deferred Retirement Option Plan (DROP), and the Initial Benefit Option plan.

Note 2 (Summary of Significant Accounting Policies) Provides information about the accounting methods and policies used in determining amounts shown on the financial statements. Information relative to the basis of accounting, the determination of estimates, system investments and properties is included in this note.

Note 3 (Contributions) Describes contributions to the Retirement System.

Note 4 (Actuarial Cost Method) Defines the cost methods used to calculate funding requirements of the Retirement System.

Note 5 (Cash, Cash Equivalents and Investments) Describes investments, including authority and policies, investment risk discussion, and additional information about cash and securities lending investments.

Note 6 (Property and Equipment) Details the cost of the Retirement System's fixed assets as well as related depreciation expense and accumulated depreciation.

**Louisiana State Police Pension and Retirement System  
Management's Discussion and Analysis**

**Overview of the Financial Statements (Continued)**

Notes to the Financial Statements (Continued)

Note 7 (Contingent Liabilities) Details a lawsuit for additional compensation filed by one of the Retirement System's former employees. The Retirement System believes the lawsuit is without merit and has filed a motion to dismiss the lawsuit. The Retirement System is also a defendant in a lawsuit filed by disability retirees alleging the misreporting to the Internal Revenue Service of their disability benefits as taxable when in fact certain amounts were not taxable. Outside counsel for the Retirement System has advised that a favorable outcome is unlikely, however, no estimate of the financial impact can be made at this time.

Required Supplementary Information -The required supplementary information consists of two schedules and related notes. These schedules show the funding progress and employer contribution data for the Retirement System. The related notes disclose key actuarial assumptions and methods used in the schedules.

Supporting Schedules -These schedules include information on administrative expenses, investments, and board compensation.

**Louisiana State Police Pension and Retirement System's Financial Analysis**

The Retirement System provides retirement benefits to all sworn, commissioned law enforcement officers of the Division of State Police of the Department of Public Safety who have completed the State Police Training Academy Course of Instruction. These benefits are funded through member contributions, employer contributions, earnings on investments, and insurance premium fund allocations. Total net assets held in trust for pension benefits at June 30, 2007 amounted to \$458.2 million; which was an increase of \$78.2 million, or 21% from the \$379.9 million held at June 30, 2006.

Additions to Plan Net Assets - Additions to the Retirement System's net assets held in trust for pension benefits include contributions from employers and members, an insurance premium tax and investment income. The insurance premium tax in the amount of \$1.5 million was the result of 2001 legislation. The Retirement System recognized a current year net investment income \$63.7 million compared to the \$25.6 million income in the prior year.

<u>Additions to Net Assets</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 Percentage Change</u>
Employee contributions	\$4,020,197	\$3,997,156	\$4,182,096	1%
Employer contributions	38,930,312	34,652,036	26,887,354	12%
Insurance premium tax	1,500,000	1,500,000	1,500,000	
Net investment income (loss)	63,735,798	25,561,079	27,796,776	149%
Transfers In	1,001,566	1,222,735	1,734,005	(18)%
Miscellaneous	<u>126,861</u>	<u>185,936</u>	<u>56,290</u>	<u>(32)%</u>
<b>Total additions</b>	<b><u>109,314,734</u></b>	<b><u>67,118,942</u></b>	<b><u>62,156,521</u></b>	<b><u>63%</u></b>

Deductions from Plan Net Assets - Deductions from the Retirement System's net assets held in trust for pension benefits are comprised primarily of pensions paid Retirement System retirees, survivors, and beneficiaries. Also included as deductions are administrative expenses and refunds of contributions. Pensions paid to retirees, survivors, and beneficiaries amounted to \$30.4 million for 2007, which represented an increase of \$3.4 million from the \$27.0 million paid in 2006. The increase was due to an increase in normal monthly payments to pensioners, as well as an increase in DROP fund distributions. The 2007 administrative expenses represented only 1.5% of total plan deductions, which is consistent with the prior year's 1.5%.

**Louisiana State Police Pension and Retirement System  
Management's Discussion and Analysis**

**Louisiana State Police Pension and Retirement System's Financial Analysis (Continued)**

Deductions from Plan Net Assets (Continued)

<u>Deductions from Plan Net Assets</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 Percentage Change</u>
Benefits paid	\$30,430,391	\$27,039,512	\$25,216,731	13.0%
Refunds and withdrawals	162,483	218,572	309,370	(26.0)%
Administrative and depreciation expense	<u>432,781</u>	<u>415,344</u>	<u>416,736</u>	<u>4.0%</u>
<u>Total deductions</u>	<u>31,025,655</u>	<u>27,673,428</u>	<u>25,942,837</u>	<u>12.0%</u>

Investments - Total investments amounted to \$479.8 million at June 30, 2007 as compared to \$396.5 million at June 30, 2006 which represented an increase of \$83.3 million or 21%. The Retirement System's market return was 16.7%, the benchmark for the overall portfolio returned 14.5%, and the average peer-group for System's with a similar asset allocation was 8.34% for the year.

When making comparisons from year to year, it is important to be aware that other factors may affect the change in investments, particularly the changes between investment categories and types. Probably the most notable of the factors is that of investment re-balancing, which is initiated when a certain predetermined target allocation percentage is reached. Investment allocations that have become over-allocated are sold in part and distributed for the purchase of investment allocations that have become under-allocated. It is also important to note that the investment portfolio is not stagnant, but is traded in part each business day. Therefore, the reader should be cautious about drawing conclusions as to how and why the portfolio increased or decreased in value. It is perhaps best to refer to the following table to conclude how the Retirement System's investments changed overall.

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 Percentage Change</u>
Investments, at fair value				
Short-term investments	\$19,316,714	\$42,389,128	\$7,916,811	(54.4)%
U.S. Government agency obligations	16,441,249	16,329,560	31,707,443	0.7%
Bonds - domestic	20,703,208	27,943,914	53,825,248	(26.0)%
Bonds - international			1,103,017	
Bond Index Fund	32,316,280	28,440,764	49,590,065	13.6%
Common stocks - domestic	135,294,973	119,876,903	105,380,272	12.9%
Common stocks - international	67,858,316	47,074,694	23,477,539	44.2%
Equity Index Fund	122,376,040	95,940,726	65,973,625	27.5%
Real Estate	20,540,706			100.0%
Preferred stocks	2,832,809	1,107,191	293,256	155.9%
Alternative investments	20,111,748			100.0%
Collateral held under securities lending program	<u>22,023,736</u>	<u>17,436,730</u>	<u>17,686,006</u>	<u>26.3%</u>
<u>Total investments</u>	<u>479,815,779</u>	<u>396,539,610</u>	<u>356,953,282</u>	<u>21.0%</u>

REQUESTS FOR INFORMATION

This Annual Financial Report is designed to provide a general overview of the Louisiana State Police Pension and Retirement System's finances for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the Louisiana State Police Pension and Retirement System, 3100 Brentwood Drive, Suite B, Baton Rouge, Louisiana 70809.

**Louisiana State Police Pension and Retirement System**  
**Statements of Plan Net Assets**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and cash equivalents	<u>\$15,258</u>	<u>\$165,248</u>
Receivables		
Employer contributions	243,234	333,612
Employee contributions	134,357	132,171
Pending trades	1,224,099	1,853,392
Accrued interest and dividends	594,113	737,608
Other receivables	<u>100</u>	<u>2,969</u>
<u>Total receivables</u>	<u>2,195,903</u>	<u>3,059,752</u>
Investments, at fair value		
Short-term investments	19,316,714	42,389,128
U.S. Government agency obligations	16,441,249	16,329,560
Bonds - domestic	20,703,208	27,943,914
Bond Index Fund	32,316,280	28,440,764
Common stocks - domestic	135,294,973	119,876,903
Common stocks - international	67,858,316	47,074,694
Equity Index Fund	122,376,040	95,940,726
Preferred stocks	2,832,809	1,107,191
Real estate trust funds	20,540,706	
Alternative investments	20,111,748	
Collateral held under securities lending program	<u>22,023,736</u>	<u>17,436,730</u>
<u>Total investments</u>	<u>479,815,779</u>	<u>396,539,610</u>
Properties, at cost (net of accumulated depreciation of \$110,980 and \$107,241)	<u>7,601</u>	<u>7,885</u>
<u>Total assets</u>	<u>482,034,541</u>	<u>399,772,495</u>
<b>Liabilities</b>		
Accounts payable	801,855	624,237
Pending trades payable	937,519	1,729,176
Obligations under securities lending program	<u>22,023,736</u>	<u>17,436,730</u>
<u>Total liabilities</u>	<u>23,763,110</u>	<u>19,790,143</u>
<b>Net Assets Held in Trust For Pension Benefits</b>		
(A schedule of funding progress is presented on page 26)	<u>458,271,431</u>	<u>379,982,352</u>

The accompanying notes are an integral part of these statements.



**Louisiana State Police Pension and Retirement System**  
**Statements of Changes in Plan Net Assets**  
**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Additions</b>		
Employer Contributions		
Appropriations	\$35,940,246	\$31,281,308
Motor vehicle fees	2,990,066	3,370,728
Insurance premium tax	1,500,000	1,500,000
Member contributions	<u>4,020,197</u>	<u>3,997,156</u>
	<u>44,450,509</u>	<u>40,149,192</u>
Investment Income		
Net appreciation in fair value of investments	56,559,819	18,472,540
Interest and dividends	8,525,702	8,440,240
Securities lending interest	<u>889,594</u>	<u>890,099</u>
	<u>65,975,115</u>	<u>27,802,879</u>
Less Investment Expenses		
Custodial services	83,459	74,148
Investment manager	1,236,193	1,196,471
Investment consultant	70,000	70,000
Securities lending	845,269	808,195
Foreign taxes withheld	<u>4,396</u>	<u>92,986</u>
	<u>2,239,317</u>	<u>2,241,800</u>
<u>Net investment income</u>	<u>63,735,798</u>	<u>25,561,079</u>
<b>Other Additions</b>		
Transfers in - employer and interest	540,946	543,433
Transfers in - employee	460,620	679,302
Miscellaneous	<u>126,861</u>	<u>185,926</u>
	<u>1,128,427</u>	<u>1,408,661</u>
<u>Total additions</u>	<u>109,314,734</u>	<u>67,118,932</u>
<b>Deductions</b>		
Benefits paid	30,430,391	27,039,512
Administrative expenses	429,042	407,952
Refund of employee contributions	101,136	82,931
Transfers out	61,347	135,641
Depreciation	<u>3,739</u>	<u>7,392</u>
<u>Total deductions</u>	<u>31,025,655</u>	<u>27,673,428</u>
<b>Net Increase</b>	78,289,079	39,445,504
<b>Net Assets Held in Trust For Pension Benefits</b>		
Beginning of Year	<u>379,982,352</u>	<u>340,536,848</u>
End of Year	<u>458,271,431</u>	<u>379,982,352</u>

The accompanying notes are an integral part of these statements.

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 1-Plan Description**

The Louisiana State Police Pension and Retirement System (Retirement System) is the administrator of a single employer defined benefit plan. The Retirement System provides benefits to all sworn, commissioned law enforcement officers of the Division of State Police of the Department of Public Safety who have completed the State Police Training Academy Course of Instruction; those members employed on the effective date of the Retirement System, those subsequently employed who did not withdraw employee contributions; and secretaries and deputy secretaries of the Department of Public Safety, provided they are sworn, commissioned State Police officers as defined above. The Retirement System is administered by a board of trustees made up of eleven members composed of:

- Treasurer of the State of Louisiana, ex officio
- Commissioner of Administration, ex officio
- Superintendent of the Office of State Police
- President of the Louisiana State Troopers' Association
- President of the Central State Troopers' Coalition
- Chair of the Senate Finance Committee, ex officio
- Chair of the House Retirement Committee, ex officio
- Surviving Spouse representative, elected by active and retired members
- One active member of the Retirement System, elected by the active members
- One retired member of the Retirement System, elected by the retired members
- One member, active or retired, elected by active and retired members

The Retirement System's elected trustees serve three-year staggered terms. Members and retirees elect respective trustees each year to fill vacancies. Louisiana law allows the board to adopt rules and regulations in administering the Retirement System's programs and benefits. The board hears appeals from members and issues decisions in such cases. The board also appoints the Retirement System's executive director and assistant director.

The Retirement System is considered a component unit of the financial reporting entity of the State of Louisiana and is included as a pension trust fund in the State Comprehensive Annual Financial Report. The accompanying financial statements reflect the activity of the Retirement System.

In May 2002, the Governmental Accounting Standards Board issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amended Statement No. 14, *The Financial Reporting Entity*. The definition of a reporting entity is based primarily on the concept of financial accountability. In determining financial accountability for a legally separate organization, the Retirement System considered whether its officials appoint a voting majority of an organization's governing body and whether either they are able to impose their will on that organization or if there is a potential for the organization to provide specific financial burdens to, or to impose specific financial burdens, on the Retirement System. The Retirement System determined there are no organizations that are fiscally dependent on it, and there are no component units of the Retirement System.

The Retirement System was established and provided for within Title II of the Louisiana Revised Statutes (LRS). The Retirement System was first established by Legislative Act No. 293 of 1938.

Pursuant to Act Number 876 of the 2004 Regular Session of the Louisiana Legislature, the Retirement System became a qualified system on January 1, 2004, under Section 401(a) of the Internal Revenue Code.

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 1-Plan Description (Continued)**

The plan membership as of June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Retirees and beneficiaries currently receiving benefits, and deferred retirement plan participants	1,003	996
Terminated vested members not yet receiving benefits	23	22
Current, active employees (vested and non-vested)	1,146	1,134
DROP	<u>32</u>	<u>36</u>
	<u>2,204</u>	<u>2,188</u>

Plan benefits are as follows:

**A. Regular Retirement**

A member shall be eligible for regular retirement based on the following:

1. Ten years of service credit at age 50. Benefits are determined by multiplying the years of service credit by 3½% to compute a retirement percentage factor (not to exceed 100%), which is then multiplied by the member's average salary.
2. Twenty years of service credit at any age if employed prior to September 8, 1978. Benefits are determined by multiplying the years of service credit by 3½% to compute a retirement percentage factor (not to exceed 100%), which is then multiplied by the member's average salary.
3. Twenty-five years of service credit at any age if employed on or after September 8, 1978. Benefits are determined by multiplying the years of service credit by 3½% to compute a retirement percentage factor (not to exceed 100%), which is then multiplied by the member's average salary.

**B. Disability Retirement**

A member shall be eligible for a disability benefit based on the following:

1. Nonservice-related total disability - five years of service.
2. Service-related total disability - condition of employment.

Benefit - Disabled eligible members will receive a benefit equal to 50% of average salary, plus one and one-half percent of average salary for each year of service in excess of ten years.

Disability benefits shall be modified whenever a non-service disability retiree is engaged in gainful employment paying more than the difference between his retirement allowance and his final average compensation. For service-related disability, there is no limitation.

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 1-Plan Description (Continued)**

**C. Survivor Benefits**

Survivor benefits are payable first to the surviving spouse; secondly, to minor children who are under the age of eighteen years or a student under the age of twenty-three years and; thirdly, to the dependent parent or parents of the deceased employee, provided they derived their main support from the employee.

1. Death from injury received in the line of duty - the surviving spouse shall receive 75% of the current salary of the employee at the time of injury. If no surviving spouse, minor children shall receive the same 75% benefit.
2. The surviving spouse of any eligible member whose death occurs other than in the line of duty shall be pensioned as follows:
  - a. Under five years of service credit - 25% of the average salary.
  - b. Five years but under ten years of service credit - 30% of the average salary.
  - c. Ten years but under fifteen years of service credit - 40% of the average salary.
  - d. Fifteen years but under twenty years of service credit - 50% of the average salary.
  - e. Twenty or more years of service - the retirement benefit the employee was qualified to receive had the employee elected to retire at the time of his death.

If there is no surviving spouse, minor children shall receive a monthly pension equal to greater of (1) 60% of the average salary, or (2) the pension which would have been received by a surviving spouse if one existed.

3. For the death of a member whether in the line of duty or not and there is no surviving spouse or minor children, then dependent parents shall be entitled to a monthly pension of 25% of the average salary if they, or either of them derived their main support from the deceased participant.

**D. Deferred Benefits**

The Retirement System provides for deferred benefits for vested members who terminate before being eligible for retirement. Once the member reaches the appropriate age for retirement, benefits become payable.

**E. Deferred Retirement Option Plan (DROP)**

Any active member who is eligible to receive a service retirement is eligible to participate in the Deferred Retirement Option Plan (DROP) and defer receipt of benefits. This program was created by Act II of 1990. The participation period shall not exceed three years. During the drop participation period, an amount equal to what would be received as a monthly retirement benefit is accumulated in an individual account. The participant continues to receive a regular earned salary while employed.

Upon termination of employment at the end of the DROP participation period, a participant may be paid in any manner the participant chooses subject to the Internal Revenue Services guidelines. Upon completion of the DROP period regardless of employment status, the member's individual DROP account earns interest at the rate of one-half of a percentage point below the actuarial rate of return of the Retirement System's investment portfolio. DROP participants, who enter DROP after June 30, 2003 must go into a money market fund approved by the Board of trustees, utilize a self-directed account approved by the Board or move their assets into an outside self-directed account.

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 1-Plan Description (Continued)**

**F. Initial Benefit Option**

This option may be selected at retirement and will pay retirees a lump sum amount at retirement in addition to a monthly retirement benefit reduced on an actuarial basis.

A retiree may choose an "initial benefit" in a lump sum payment or as a deposit to an interest-bearing account similar to a DROP account. Interest earnings and withdrawals will be the same as for DROP accounts. The difference between the "Initial Benefit Option" and "DROP" option is that the account created under the "Initial Benefit Option" is created with a lump sum, rather than amounts which accumulate over a DROP participation period.

Only members who have not participated in the Deferred Retirement Option Plan (DROP) can select this option. Disability retirees cannot select this option.

**Note 2-Summary of Significant Accounting Policies**

**A. Basis of Accounting**

The Retirement System's financial statements are prepared on the accrual basis of accounting. Contributions from the participating entities and their employees are recognized as revenue when due, pursuant to ordinance requirements, formal commitments, and statutory contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**B. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reporting period. Actual results could differ from those estimates. The Retirement System utilizes various investment instruments which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

**C. Investments**

The Retirement System's investments are reported at fair value, as required by GASB No. 25, "Financial Reporting for Defined Benefit pension Plans and Note Disclosures for Defined Contribution Plans". Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. Investments that do not have an established market are reported at estimated fair value as determined by the Retirement System's investment consultant.

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 2-Summary of Significant Accounting Policies (Continued)**

D. Properties

Properties consist of furniture, fixtures and equipment and are stated at cost. Depreciation is computed on the straight-line basis over their estimated useful lives. The estimated useful lives range from 3 to 10 years. Minor property acquisitions are charged to operations in the period they are made.

E. Reclassifications

Certain amounts in the prior year financial statements may be reclassified in order to conform to the current year.

**Note 3-Contributions**

Cost of administering the Retirement System is financed by employer contributions.

Louisiana law currently sets the employee contribution rate at 8.0 percent of earned compensation for state police employees. The employer contribution rate determined each year is based on an actuarial formula set by state law. The employer's contribution includes state appropriations and various fees collected by the Motor Vehicle Office within the Department of Public Safety.

**Note 4-Actuarial Cost Method**

The individual "Entry Age Normal" cost method is used to calculate the funding requirements of the Retirement System. Under this cost method, the actuarial present value of projected benefits of each individual participant included in the valuation is allocated on a level basis as a percentage of payroll for each participant between entry age and assumed retirement age(s). That portion of the actuarial present value attributable to current year benefit accruals is called the Normal Cost. The actuarial present value of future benefits in excess of the actuarial present value of future normal cost is called the Actuarial Accrued Liability.

Act 165 of the 1992 Legislative Session provides that the Unfunded Actuarial Liability in accordance with the Projected Unit Credit cost method on June 30, 1988 shall continue to be amortized over a 20 year period as a level dollar amount. New changes in actuarial methods or assumptions are amortized over the later of the year 2029 or the amortization period stated in the Louisiana Revised Statutes.

**Note 5-Cash, Cash Equivalents and Investments**

Deposit and Investment Risk Disclosures

The tables presented below include disclosures of custodial, interest rate, credit and foreign currency risks in accordance with GASB 40 and are designed to inform financial statement users about investment risks that could affect the Retirement System's ability to meet its obligations. These tables classify investments by risk type, while the financial statements present investments by asset class; thus, the totals shown on the tables may not be comparable to the amounts shown for the individual asset classes on the financial statements.

Cash and Cash Equivalents

At June 30, 2007, the carrying amount of the Retirement System's cash was \$15,258 and the bank balance was \$211,024, of which \$100,000 was covered by Federal Depository Insurance. The remainder was collateralized by securities held by the Retirement System's agent, JPMorgan Chase Bank, N.A., Baton Rouge, Louisiana, in

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 5-Cash, Cash Equivalents and Investments (Continued)**

Cash and Cash Equivalents (Continued)

a custodial account in the Retirement System's name. At June 30, 2006, the carrying amount of the Retirement System's cash was \$165,248 and the bank balance was \$468,232, of which \$100,000 was covered by Federal Depository Insurance. The remainder was collateralized by securities held by the Retirement System's agent, Bank One, N.A. Baton Rouge, Louisiana, in a custodial account in the Retirement System's name.

Investments

Statutes authorize the Retirement System to invest under the Prudent-Man Rule which, as used herein, means that in investing the governing authority of the Retirement System shall exercise the judgement and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. Notwithstanding the Prudent-Man Rule, the governing authority of the Retirement System shall not invest more than sixty-five percent of its' total portfolio in equities.

The System has no investments of any single organization (other than those issued or guaranteed by the U.S. Government) that represent 5% or more of the System's net plan assets, nor does the System hold more than 5% of any corporation's stock.

During Fiscal Year 2007, the System's investments (including investments bought, sold, and held during the year) appreciated in value by \$56,559,819 compared to \$18,472,540 in 2006.

	<u>2007</u>	<u>2006</u>
Increase/(Decrease) in fair value of investments held at year end	\$44,589,542	(\$10,508,531)
Realized gains/(losses) on investments including currency sold during the year	<u>11,970,277</u>	<u>28,981,071</u>
	<u>56,559,819</u>	<u>18,472,540</u>

The following table presents the fair value of investments by type at June 30, 2007 and 2006, respectively.

	<u>2007</u> <u>Fair Value</u>	<u>2006</u> <u>Fair Value</u>
<b>Investments - Type</b>		
U.S. Government Agency obligations		
Not on securities loan	\$16,441,249	\$16,329,560
Bonds		
Domestic not on securities loan	20,703,208	27,943,914
Bond Index Fund	32,316,280	28,440,764
Common Stocks		
Domestic not on securities loan	113,271,237	99,703,997
Domestic on security loan for security collateral		2,940,000
International	<u>67,858,316</u>	<u>24,619,992</u>
(Continued - amounts brought forward)	250,590,290	199,978,227

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 5-Cash, Cash Equivalents and Investments (Continued)**

	<u>2007</u> <u>Fair Value</u>	<u>2006</u> <u>Fair Value</u>
<b>Investments - Type (Continued)</b>		
(Continued - amount carried forward)	\$250,590,290	\$199,978,227
Equity Index Fund	122,376,040	118,395,428
Real estate trust	20,540,706	
Preferred Stock	2,832,809	1,107,191
Alternative investments	20,111,748	
Short-term investments - Mutual Funds	19,316,714	42,389,128
Investments held by broker dealers under securities loan		
Common stocks - domestic	22,023,736	17,232,906
 <b>Collateral Held Under Securities Lending Program</b>		
Tri-Party Repurchase Agreement	<u>22,023,736</u>	<u>17,436,730</u>
 <b>Total</b>	 <u><u>479,815,779</u></u>	 <u><u>396,539,610</u></u>

Custodial Risk of Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter-party, the Retirement System will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the system and are held by either the counter-party or the counter-party's trust department or agents but not in the system's name. The System has no custodial credit risk at June 30, 2007 and 2006 since all investments were registered in the name of the Retirement System and held in the possession of the Retirement Systems custodial bank, JPMorgan Chase Bank, N.A., Baton Rouge, Louisiana.

Interest Rate Risk

As of June 30, 2007, the Retirement System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>More than 10</u>
U.S. Government					
Agency Obligations	\$16,441,249		\$132,396		\$16,308,853
Corporate Bonds and Notes	<u>20,703,208</u>	<u>\$987,880</u>	<u>6,618,197</u>	<u>\$8,540,812</u>	<u>4,556,319</u>
 <b>Totals</b>	 <u><u>37,144,457</u></u>	 <u><u>987,880</u></u>	 <u><u>6,750,593</u></u>	 <u><u>8,540,812</u></u>	 <u><u>20,865,172</u></u>

The Retirement System, as expressed in its Investment Policy Statement, expects its fixed income managers to approximate the portfolio's duration (a measure of interest rate sensitivity) to its respective benchmarks, i.e. the Lehman Government/Credit Bond Index and the Lehman Aggregate Bond Index.



**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 5-Cash, Cash Equivalents and Investments (Continued)**

Credit Risk

The Retirement System's exposure to credit risk at June 30, 2007, was as follows:

	<u>Total</u>	<u>Domestic</u>
AAA	\$1,017,833	\$1,017,833
AA	699,986	699,986
AA-	2,199,820	2,199,820
A+	5,147,822	5,147,822
A	6,806,721	6,806,721
A-	3,586,185	3,586,185
BBB+	<u>1,244,841</u>	<u>1,244,841</u>
<u>Total credit risk debt securities</u>	<u>20,703,208</u>	<u>20,703,208</u>

The Retirement System's debt security investments are managed by two investment managers. The first manager is benchmarked against the Lehman Government/Corporation Index. The duration range will be within 1.5 years plus or minus the benchmark. Securities must carry an investment grade rating (BBB or higher for Standard & Poor's or BAA for Moody's) by at least one major rating agency. However, up to 10% of the portfolio's market value may be held in securities rated below BBB/BAA. The average quality of the portfolio must be A or higher. Non U.S. dollar and foreign securities may not exceed 5% of the portfolio's market value. Rule 144(A) securities are permissible.

The second manager is benchmarked against the Lehman Brothers Aggregate Bond Index. Securities will carry an investment grade rating of A or higher by either rating agency. Any security downgraded below an A rating must be brought to the attention of the System's Director and its investment consultant immediately. Non-U.S. dollars, foreign and Rule 144(A) securities are not permissible.

Foreign Currency Risk

The Retirement System's exposure to foreign currency risk at June 30, 2007, was as follows:

	<u>Percent</u>	<u>Total</u>	<u>Common Stocks</u>
Canadian dollar	0.6%	\$377,055	\$377,055
International pooled funds	<u>99.4%</u>	<u>60,232,211</u>	<u>60,232,211</u>
<u>Foreign currency risk</u>	<u>100.0%</u>	60,609,266	60,609,266
Foreign currency - U.S. dollar		<u>7,249,050</u>	<u>7,249,050</u>
<u>Total foreign investments</u>		<u>67,858,316</u>	<u>67,858,316</u>

No more than 12.5% of the Retirement System's total portfolio may be allocated to managers whose assigned style is international equities. Equity holdings of all other managers shall be restricted to issues of corporations that are actively traded on the major U.S. exchanges and NASDAQ.

**Louisiana State Police Pension and Retirement System**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 5-Cash, Cash Equivalents and Investments (Continued)**

Security Lending Agreements

State statutes and board of trustee policies authorize the Retirement System to invest under the Prudent-Man Rule. Under the Prudent-Man Rule, the Retirement System is allowed to lend its securities to broker-dealers and other entities with simultaneous agreements to return the collateral for the same securities in the future. The Retirement System's custodians are agents in lending the plan's securities for either cash or securities collateral equal to 102% of the market value of the securities on loan. The securities lending contract does not allow the Retirement System to pledge or sell any collateral securities unless the borrower defaults. Securities on loan at year-end are presented in the schedule of investment types. At year-end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities loaned) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Retirement System or the borrower. The terms to maturity of the securities loaned is matched with the terms to maturity of the investment of the cash collateral.

**Note 6-Property and Equipment**

The following is a summary of property, equipment and fixtures at June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Office equipment and furniture	\$115,126	\$3,455		\$118,581
Less: accumulated depreciation	<u>(107,241)</u>	<u>(3,739)</u>		<u>(110,980)</u>
	<u>7,885</u>	<u>(284)</u>		<u>7,601</u>

Depreciation expenses for the years ended June 30, 2007 and 2006, were \$3,739 and \$7,392, respectively.

**Note 7-Contingent Liabilities**

The Retirement System is a defendant in a lawsuit filed by disability retirees alleging the misreporting to the Internal Revenue Service of their disability benefits as taxable when in fact certain amounts were not taxable. Outside counsel for the Retirement System has advised that a favorable outcome is unlikely, however, no estimate of the financial impact can be made at this time.

**Note 8-Required Supplemental Information**

In accordance with GASB 25, Required Supplementary Information can be found in the attached schedules.

**Required Supplementary Information**

**Louisiana State Police Pension and Retirement System**  
**Required Supplementary Information**  
**Schedule of Employer Contributions and Other Sources**  
**June 30, 1998 Through June 30, 2007**  
(Dollar Amounts in Thousands)

<b>Fiscal Date</b>	<b>Actuarial Required Contribution <u>Employer</u></b>	<b>Percent Contributed <u>Employer</u></b>
1998	\$19,131,381	118.6%
1999	19,233,721	119.5%
2000	20,651,122	114.6%
2001	20,152,607	120.0%
2002	21,153,440	124.6%
2003	24,411,521	107.2%
2004	30,288,239	87.0%
2005	33,658,907	87.4%
2006	36,698,310	102.1%
2007	18,482,551	226.8%

**Louisiana State Police Pension and Retirement System**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**June 30, 1998 Through June 30, 2007**  
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) (AAL) (UAAL)* (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1998	\$188,904	\$313,146	\$124,242	60.3%	\$29,642	419.1%
1999	216,954	340,299	123,345	63.8%	35,312	349.3%
2000	244,015	337,701	93,686	72.3%	33,603	278.8%
2001	261,576	355,629	94,053	73.6%	32,157	292.5%
2002	271,694	386,698	115,004	70.3%	31,695	362.8%
2003	271,062	447,694	176,631	60.6%	44,148	400.1%
2004	288,865	477,085	188,220	60.6%	47,923	392.8%
2005	322,482	516,427	193,945	62.4%	49,290	393.5%
2006	379,704	546,238	166,534	69.5%	49,256	338.1%
2007	428,880	587,527	158,646	73.0%	49,763	318.8%

\* Unfunded Actuarial Accrued Liability (UAAL) differs from the Unfunded Funding Actuarial Liability (UFAL) for funding purposes. UFAL for funding purposes excludes the Texaco Settlement Fund Assets.

**Louisiana State Police Pension and Retirement System  
 Required Supplementary Information  
 Notes to the Schedules of Trend Data  
 June 30, 2007**

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the actuarial valuation dated June 30, 2007 follows:

Valuation date	June 30, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar for the initial liability and level percentage of the projected payroll for any other change in the liability. The amortization period is for a specific number of years.
Remaining amortization period	None
Asset valuation method	Based on market value of assets adjusted for a four year weighted average of the unrealized gain or loss in the value of all assets.
Actuarial assumptions:	
Investment rate of return	7.5% net expenses.
Projected salary increases	4.5% - 5% based upon a member's years of service.
Administrative Expenses	Expenses are included in aggregate normal cost and are assumed to be \$430,000 per year. Investment manager fees are not included in normal cost but are treated as a direct offset to investment income. The employer portion of the normal cost excludes an allocation for administrative expenses.
Cost of Living	The liability for cost of living raises already granted is included in the retirees reserve. The board may grant cost of living increases provided there is sufficient excess investment income and the fund has met the target ratio criteria.

## Supporting Schedules

**Louisiana State Police Pension and Retirement System**  
**Schedule of Bonds and Stocks**  
**June 30, 2007 and 2006**

	<u>June 30, 2007</u>		
	<u>Par Value</u>	<u>Cost</u>	<u>Market Value</u>
<b>Bonds</b>			
Federal Home Loan Mortgage Corporation	\$6,156,566	\$6,279,103	\$6,119,155
Federal National Mortgage Association	9,473,382	9,606,506	9,397,681
Government National Mortgage Association	909,331	929,436	924,413
Bonds - domestic	20,244,000	21,326,908	20,703,208
Bond - Index Fund	<u>2,290,310</u>	<u>30,289,522</u>	<u>32,316,280</u>
<u>Total bonds</u>	<u>39,073,589</u>	<u>68,431,475</u>	<u>69,460,737</u>

<b>Stocks</b>			
Domestic stocks		107,791,354	135,294,973
International stocks		38,696,950	67,858,316
Equity Index Fund		97,789,803	122,376,040
Preferred Stock		<u>2,948,314</u>	<u>2,832,809</u>
<u>Total stocks</u>		<u>247,226,421</u>	<u>328,362,138</u>

	<u>June 30, 2006</u>		
	<u>Par Value</u>	<u>Cost</u>	<u>Market Value</u>
<b>Bonds</b>			
Federal Home Loan Mortgage Corporation	\$8,771,621	\$8,989,097	\$8,671,847
Federal National Mortgage Association	6,630,820	6,791,964	6,561,750
Government National Mortgage Association	1,082,614	1,106,742	1,095,963
Bonds - domestic	27,944,000	28,799,606	27,943,914
Bond - Index Fund	<u>                    </u>	<u>28,354,906</u>	<u>28,440,764</u>
<u>Total bonds</u>	<u>44,429,055</u>	<u>74,042,315</u>	<u>72,714,238</u>

<b>Stocks</b>			
Domestic stocks		104,462,222	119,876,903
International stocks		32,380,334	47,074,694
Equity Index Fund		86,751,596	95,940,726
Preferred Stock		<u>1,051,916</u>	<u>1,107,191</u>
<u>Total stocks</u>		<u>224,646,068</u>	<u>263,999,514</u>



**Louisiana State Police Pension and Retirement System  
Schedule of Administrative Expenses  
Years Ended June 30, 2007 and 2006**

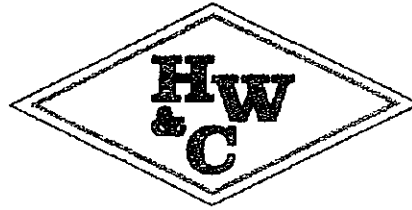
	<u>2007</u>	<u>2006</u>
Salaries	\$204,592	\$195,913
Salary related expenses	64,097	57,088
Accounting and auditing	45,465	44,825
Actuarial fees	19,200	19,000
Computer consulting	4,800	4,800
Dues and subscriptions	2,665	1,534
Insurance	1,895	13,069
Legal fees	13,927	11,573
Maintenance and repairs	267	
Medical exams		541
Miscellaneous	1,644	3,143
Office lease	29,654	28,796
Postage	14,808	12,969
Office supplies	10,494	7,694
Telephone	2,263	2,904
Travel and seminars	9,207	2,153
Board fees	<u>4,064</u>	<u>1,950</u>
	<u>429,042</u>	<u>407,952</u>

Louisiana State Police Pension and Retirement System  
Schedule of Board Compensation  
Year Ended June 30, 2007

Robert Carbary	\$908
Walter Smith	525
Alice Thibodeaux	450
Baxter Welch	<u>450</u>
	<u>2,333</u>

These members are receiving per diem payments and reimbursement for mileage in accordance with R.S. 11:182 and PPM49, respectively.

J. CHARLES PARKER, C.P.A.  
LOUIS C. McKNIGHT, III, C.P.A.  
CHARLES R. PEVEY, JR., C.P.A.  
DAVID J. BROUSSARD, C.P.A.



CERTIFIED PUBLIC ACCOUNTANTS

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September 18, 2007

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Members of the Board of Trustees  
Louisiana State Police Pension and Retirement System  
Baton Rouge, Louisiana

Members of the Board:

We have audited the basic financial statements of the

**Louisiana State Police Pension and Retirement System  
Baton Rouge, Louisiana**

a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana State Police Pension and Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana State Police Pension and Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

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

Yours truly,

*Hawthorn, Weymouth & Carroll, L.L.P.*

**Louisiana State Police Pension and Retirement System  
Summary Schedule of Prior Year Findings  
Year Ended June 30, 2007**

No findings were noted in the audit as of and for the year ended June 30, 2006.

**Louisiana State Police Pension and Retirement System  
Summary Schedule of Current Year Findings  
Year Ended June 30, 2007**

No current year findings.