

REPORT

**LOUISIANA STATE POLICE
PENSION AND RETIREMENT
SYSTEM
BATON ROUGE, LOUISIANA**

JUNE 30, 2012

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Independent Auditor's Report

September 26, 2012

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

We have audited the accompanying statements of plan net assets of the Louisiana State Police Pension and Retirement System, a component unit of the State of Louisiana, as of June 30, 2012 and 2011, 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 audits 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, 2012 and 2011, 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 26, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the Table of Contents, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were 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 Supplementary Information 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. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hienz & Macaluso, LLC
Metairie, LA

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, 2012 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 \$4.5 million, or 1%. The lesser increase was primarily due to the investment performance of the stock and bond markets during the fiscal year.

The Retirement System had net investment income of \$2.4 million in 2012, compared to net investment income of \$81.2 million in 2011.

The amount of benefit payments increased \$1.4 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, 2012 and 2011.

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 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 (Continued)**

Note 7 (Contingent Liabilities) The Retirement System was 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. This lawsuit was settled as of September 19, 2011.

Note 8 (Postemployment Health Care and Life Insurance Benefits) Details the Plan and its funding as well as the Retirement Systems' required contribution for the fiscal year

Note 9 (Funded Status and Funding Progress) Details the funded status and funding progress of the Retirement System as of the latest actuarial valuation.

Note 10 (Subsequent Events) Details the evaluation of any events to be included in the financial statements.

Required Supplementary Information -The required supplementary information consists of three 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, 2012 amounted to \$451.7 million; which was an increase of \$4.5 million, or 1% from the \$447.2 million held at June 30, 2011.

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 of \$2.4 million compared to the \$81.2 million investment income in the prior year.

| <u>Additions to Net Assets</u> | <u>2012</u> | <u>2011</u> | <u>Change</u> | <u>Percentage Change</u> |
|--------------------------------|----------------------|-----------------------|------------------------|--------------------------|
| Employee contributions | \$ 4,937,096 | \$ 5,150,698 | \$ (213,602) | -4% |
| Employer contributions | 35,713,697 | 35,305,583 | 408,114 | 1% |
| Insurance premium tax | 1,520,000 | 1,500,000 | 20,000 | 1% |
| Net investment income (loss) | 2,371,982 | 81,237,540 | (78,865,558) | 97% |
| Transfers in | 1,472,595 | 1,002,341 | 470,254 | 47% |
| Miscellaneous | 59,223 | 34,685 | 24,538 | 71% |
| Total additions | <u>\$ 46,074,593</u> | <u>\$ 124,230,847</u> | <u>\$ (78,156,254)</u> | 63% |

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 \$41.0 million for 2012, which represented an increase of \$1.4 million from the \$39.6 million paid in 2011. The 2012 administrative expenses represented only 1.3% of total plan deductions, which is consistent with the prior year's 1.3%.

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

| <u>Deductions from Plan Net Assets</u> | <u>2012</u> | <u>2011</u> | <u>Change</u> | <u>Percentage Change</u> |
|---|----------------------|----------------------|-----------------------|------------------------------|
| Benefits paid | \$ 40,993,198 | \$ 39,612,793 | \$ 1,380,405 | 3% |
| Refunds and withdrawals | 77,350 | 117,592 | (40,242) | -34% |
| Disability lawsuit settlement | - | 3,100,000 | (3,100,000) | N/A |
| Transfers out | - | 169,239 | (169,239) | N/A |
| Administrative and depreciation expense | 541,505 | 557,328 | (15,823) | -3% |
| | <u>\$ 41,612,053</u> | <u>\$ 43,556,952</u> | <u>\$ (1,944,899)</u> | -4% |

Investments-Total investments amounted to \$481.2 million at June 30, 2012 as compared to \$465.4 million at June 30, 2011 which represented an increase of \$15.8 million or 3%. The Retirement System's market return was 0.53% as compared to 22.19% in the prior 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>Investments, at fair value</u> | <u>2012</u> | <u>2011</u> | <u>Change</u> | <u>Percentage Change</u> |
|---|-----------------------|-----------------------|----------------------|------------------------------|
| Short-term investments | \$ 9,310,499 | \$ 20,349,402 | \$ (11,038,903) | -54% |
| U.S Government Agency obligations | 13,691,470 | 14,857,052 | (1,165,582) | -8% |
| Bonds - domestic | 64,658,886 | 58,554,441 | 6,104,445 | 10% |
| Bonds - international | - | 885,744 | (885,744) | 100% |
| Bond index fund | 32,589,094 | 30,340,610 | 2,248,484 | 7% |
| Common stocks - domestic | 136,530,417 | 142,827,439 | (6,297,022) | -4% |
| Common stocks - international | 22,703,784 | 52,605,143 | (29,901,359) | -57% |
| Equity index fund | 72,231,337 | 79,948,544 | (7,717,207) | -10% |
| Preferred stocks | 2,003,804 | 1,698,678 | 305,126 | 18% |
| Real estate funds | 33,700,227 | 27,624,949 | 6,075,278 | 22% |
| Alternative investments | 61,257,867 | 18,603,761 | 42,654,106 | 229% |
| Collateral held under securities lending program | 32,500,456 | 17,059,823 | 15,440,633 | 91% |
| Total investments | <u>\$ 481,177,841</u> | <u>\$ 465,355,586</u> | <u>\$ 15,822,255</u> | 3% |

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, 2012 AND 2011

| | 2012 | 2011 |
|--|----------------|----------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 33,163 | \$ 24,649 |
| Receivables | | |
| Employer contributions | 2,100,782 | 1,780,053 |
| Employee contributions | 262,269 | 247,251 |
| Accrued interest and dividends | 434,718 | 475,273 |
| Total receivables | 2,797,769 | 2,502,577 |
| Investments, at fair value | | |
| Short-term investments | 9,310,499 | 20,349,402 |
| U.S. Government agency obligations | 13,691,470 | 14,857,052 |
| Bonds - domestic | 64,658,886 | 58,554,441 |
| Bonds - international | - | 885,744 |
| Bond index fund | 32,589,094 | 30,340,610 |
| Common stocks - domestic | 136,530,417 | 142,827,439 |
| Common stocks - international | 22,703,784 | 52,605,143 |
| Equity index fund | 72,231,337 | 79,948,544 |
| Preferred stocks | 2,003,804 | 1,698,678 |
| Real estate funds | 33,700,227 | 27,624,949 |
| Alternative investments | 61,257,867 | 18,603,761 |
| Collateral held under securities lending program | 32,500,456 | 17,059,823 |
| Total investments | 481,177,841 | 465,355,586 |
| Properties, at cost | 1,367,694 | 830,732 |
| Other assets | 1,018 | - |
| Total assets | 485,377,485 | 468,713,544 |
| <u>Liabilities</u> | | |
| Accounts payable | 810,461 | 3,960,187 |
| Cash overdrafts | - | 95,743 |
| Pending trades payable | 86,951 | 105,714 |
| Other post-employment benefits payable | 321,700 | 296,700 |
| Obligations under securities lending program | 32,500,456 | 17,059,823 |
| | 33,719,568 | 21,518,167 |
| Net Assets Held in Trust for Pension Benefits | \$ 451,657,917 | \$ 447,195,377 |

The accompanying notes are an integral part of these financial statements.

LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|--|----------------|----------------|
| Additions | | |
| Employer contributions | | |
| Appropriations | \$ 32,594,441 | \$ 32,225,732 |
| Motor vehicle fees | 3,119,256 | 3,079,851 |
| Insurance premium tax | 1,520,000 | 1,500,000 |
| Member contributions | 4,937,096 | 5,150,698 |
| Total contributions | 42,170,793 | 41,956,281 |
| Investment income | | |
| Net appreciation (depreciation) in fair value of investments | (2,688,073) | 76,460,904 |
| Interest and dividends | 6,234,327 | 6,076,639 |
| Securities lending interest | 109,574 | 2,008 |
| | 3,655,828 | 82,539,551 |
| Less: investment expenses | | |
| Custodial services | 86,556 | 85,773 |
| Investment manager | 1,050,737 | 1,113,856 |
| Investment consultant | 100,000 | 100,000 |
| Securities lending | 45,567 | - |
| Foreign taxes withheld | 986 | 2,382 |
| | 1,283,846 | 1,302,011 |
| Net investment income (loss) | 2,371,982 | 81,237,540 |
| Other Additions | | |
| Transfers in - employer and interest | 1,125,990 | 742,551 |
| Transfers in - employee | 346,605 | 259,790 |
| Miscellaneous | 59,223 | 34,685 |
| Total other additions | 1,531,818 | 1,037,026 |
| Total additions | 46,074,593 | 124,230,847 |
| Deductions | | |
| Benefits paid | 40,993,198 | 39,612,793 |
| Disability lawsuit settlement | - | 3,100,000 |
| Administrative expenses | 522,262 | 555,227 |
| Refund of employee contributions | 77,350 | 117,592 |
| Transfers out - employer and interest | - | 131,132 |
| Transfers out - employee | - | 38,107 |
| Depreciation | 19,243 | 2,101 |
| Total deductions | 41,612,053 | 43,556,952 |
| Net increase | 4,462,540 | 80,673,895 |
| Net Assets Held in Trust for Pension Benefits | | |
| Beginning of Year | 447,195,377 | 366,521,482 |
| End of Year | \$ 451,657,917 | \$ 447,195,377 |

The accompanying notes are an integral part of these financial statements.

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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 five-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.

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
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Note 1 - Plan Description (Continued)

The plan membership as of June 30, 2012 and 2011 is as follows:

| | <u>2012</u> | <u>2011</u> |
|---|--------------|--------------|
| Retirees and beneficiaries currently receiving benefits, and deferred retirement plan participants | 979 | 1,033 |
| Terminated vested members not yet receiving benefits | 34 | 31 |
| Current, active employees (vested and non-vested) | 1,222 | 1,207 |
| DROP | <u>-</u> | <u>2</u> |
| | <u>2,235</u> | <u>2,273</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 3¹/₃% 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 3¹/₃% to compute a retirement percentage factor (not to exceed 100%), which is then multiplied by the member's average salary.
3. Twenty-five years or service credit at any age if employed on or after September 8, 1978. Benefits are determined by multiplying the years of service credit by 3¹/₃% 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. Non-service 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.

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.

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Note 1 - Plan Description (Continued)

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)

Prior to October 1, 2009, any active member who was eligible to receive a service retirement was 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 Service's 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.

Effective October 1, 2009, active members who have not participated in DROP may elect to participate in BACK-DROP. The primary difference is that BACK-DROP allows an eligible member, at retirement, to look back up, to three years and make an election to have entered DROP based on service and final average compensation that existed at that time. Benefit adjustments are made to the benefit accruals and employee contributions that occurred during the DROP period. Members must go into a money market fund approved by the Board, 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
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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.

G. New Retirement Plan

Act 992 of the 2010 Regular Session of the Louisiana Legislature established a new retirement plan within the Retirement System for those employed on or after January 1, 2011. A member shall be eligible for regular retirement based on the following:

1. Twenty-five years or more of service at any age.
2. Twelve years or more of service at age fifty-five or thereafter.
3. Twenty years of service at any age, exclusive of military service and unused annual and sick leave.

A member shall be eligible for a disability benefit equal to seventy-five percent of average compensation regardless of years of service.

Survivor benefits shall be payable to qualified survivors without regard to the amount of time that the surviving spouse was married to the deceased member and without regard to the amount of time that the deceased was a member of this plan. The benefit shall be shared equally by the surviving spouse and children in an amount equal to eighty percent of the members' average compensation.

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

LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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 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.

D. Properties

Properties consist of building and 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 40 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 previously set the employee contribution rate at 8.0 percent of earned compensation for state police employees. Effective October 1, 2009, the employee contribution rate increased to 8.5 percent for the majority of 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.

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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, 2012, the carrying amount of the Retirement System's cash was \$33,163 and the bank balance was \$200,985, all of which was covered by Federal Depository insurance. At June 30, 2011, the carrying amount of the Retirement System's cash was \$24,649 and the bank balance was \$262,507, all of which was covered by Federal Depository insurance.

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 judgment 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 the following investments that represent 5% or more of the System's total investments at June 30, 2012:

| | <u>Fair Value</u> |
|---|-------------------|
| Loomis Sayles Fixed Income Fund | \$ 38,799,751 |
| Institutional Equity Funds | 43,754,489 |
| State Street S&P 500 Flagship Fund | 50,471,951 |
| State Street U.S. Aggregate Bond Index Securities Lending | 32,589,094 |

During fiscal year 2012, the System's investments (including investments bought, sold, and held during the year) depreciated in value by \$2,688,073 compared to a net appreciation of \$76,460,904 in 2011.

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------|----------------------|
| Increase (decrease) in fair value of investments held at year-end | \$ (5,688,822) | \$ 66,488,595 |
| Realized gains (losses) on investments including | | |
| Currency sold during the year | <u>3,000,749</u> | <u>9,972,309</u> |
| | <u>\$ (2,688,073)</u> | <u>\$ 76,460,904</u> |

Custodial Credit Risk

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 (not in the possession of) 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, 2012

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

and 2011 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, 2012 and 2011, 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 \$ | 13,691,470 | \$ - | \$ 8,466 | \$ - | \$ 13,683,004 |
| Corporate Bonds | <u>25,859,135</u> | <u>1,035,520</u> | <u>10,143,843</u> | <u>10,013,614</u> | <u>4,666,158</u> |
| Totals | <u>\$ 39,550,605</u> | <u>\$ 1,035,520</u> | <u>\$ 10,152,309</u> | <u>\$ 10,013,614</u> | <u>\$ 18,349,162</u> |

The statement of plan net assets also reflects a bond fund in the amount of \$38,799,751 with no maturity.

| <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 \$ | 14,857,052 | \$ 5,315 | \$ 11,985 | \$ - | \$ 14,839,752 |
| Corporate Bonds | <u>22,395,283</u> | <u>2,480,852</u> | <u>4,158,253</u> | <u>11,922,229</u> | <u>3,833,949</u> |
| Totals | <u>\$ 37,252,335</u> | <u>\$ 2,486,167</u> | <u>\$ 4,170,238</u> | <u>\$ 11,922,229</u> | <u>\$ 18,673,701</u> |

The statement of plan net assets also reflects a bond fund in the amount of \$37,044,902 with no maturity.

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.

Credit Risk

The Retirement System's exposure to credit risk at June 30, 2012 and 2011, respectively, was as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------|----------------------|----------------------|
| AAA | \$ 1,086,690 | 569,274 |
| AA+ | 1,147,570 | \$ 1,104,020 |
| AA | 1,035,520 | 863,040 |
| AA- | 2,509,240 | 1,123,800 |
| A+ | 1,452,495 | 818,398 |
| A | 11,609,147 | 10,987,151 |
| A- | 5,272,722 | 3,756,672 |
| BBB+ | 799,071 | 1,411,624 |
| BBB | - | 886,744 |
| BBB- | 946,680 | 874,560 |
| Total credit risk | <u>\$ 25,859,135</u> | <u>\$ 22,395,283</u> |

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

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, 2012 and 2011, was as follows:

| <u>2012</u> | <u>Percent</u> | <u>Total</u> | <u>Stocks</u> |
|--------------------------------|-----------------------|---------------------|----------------------|
| International pooled funds | 100.0% | \$ - | \$ - |
| Foreign currency risk | 100.0% | - | - |
| Foreign currency – U.S. dollar | | <u>22,703,784</u> | <u>22,703,784</u> |
| Total foreign investments | | <u>\$22,703,784</u> | <u>\$22,703,784</u> |
| | | | |
| <u>2011</u> | <u>Percent</u> | <u>Total</u> | <u>Stocks</u> |
| International pooled funds | 100.0% | \$23,402,219 | \$23,402,219 |
| Foreign currency risk | 100.0% | 23,402,219 | 23,402,219 |
| Foreign currency – U.S. dollar | | <u>29,202,924</u> | <u>29,202,924</u> |
| Total foreign investments | | <u>\$52,605,143</u> | <u>\$52,605,143</u> |

No more than 15.0% 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.

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.

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

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, 2012:

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Deletions</u> | Ending <u>Balance</u> |
|--------------------------------|-----------------------------|--------------------|--------------------|--------------------------|
| Land | \$533,298 | \$ - | \$ - | \$ 533,298 |
| Building | - | 800,271 | - | 800,271 |
| Construction in progress | 291,958 | 508,313 | (800,271) | - |
| Office equipment and furniture | 126,328 | 49,291 | (10,679) | 164,940 |
| Less: accumulated depreciation | <u>(120,852)</u> | <u>(19,243)</u> | <u>9,280</u> | <u>(130,815)</u> |
| | <u>\$830,732</u> | <u>\$1,338,632</u> | <u>\$(801,670)</u> | <u>\$1,367,694</u> |

Depreciation expense for the years ended June 30, 2012 and 2011 was \$19,243 and \$2,101, respectively.

Note 7 - Contingent Liabilities

As of June 30, 2011, the Retirement System was 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. Effective September 19, 2011, a settlement was entered into whereby the Retirement System was liable for \$3,100,000; therefore there is no further liability as of June 30, 2012.

Note 8 - Postemployment Health Care and Life Insurance Benefits

Plan description

Louisiana State employees may participate in the State's Other Postemployment Benefit Plan (OPEB Plan), an agent multiple-employer defined benefit OPEB Plan (for FY 2012) that provides medical and life insurance to eligible active employees, retirees and their beneficiaries. The Office of Group Benefits administers the plan. LRS 42:801-883 provides the authority to establish and amend benefit provisions of the plan. The Office of Group Benefits does not issue a publicly available financial report of the OPEB Plan; however, it is included in Louisiana Comprehensive Annual Financial Report (CAFR). You may obtain a copy of the CAFR on the Office of Statewide Reporting and Accounting Policy's website at www.doa.la.gov/osrap.

Funding Policy

The contribution requirements of plan members and the Retirement System are established and may be amended by LRS 42:801-883. Employees do not contribute to their postemployment benefits cost until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree healthcare based on a service schedule. Contribution amounts vary depending on what healthcare provider is selected from the plan and if the member has Medicare coverage. The Office of Group Benefits offers three standard plans for both active and retired employees: the Preferred Provider Organization (PPO) Plan, the Exclusive Provider Organization (EPO) plan and the Health Maintenance Organization (HMO) plan. Retired employees who have Medicare Part A and Part B coverage also have access to five OGB Medicare Advantage plans which includes three HMO plans and two private fee-for-service (PFFS) plans. Depending upon the plan selected, employee premiums for a single member receiving benefits ranged from \$90 to \$94 during 2012 and \$80 to \$84 during 2011 for retiree-only coverage with Medicare or from \$146 to \$154 during 2012 and

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Note 8 - Postemployment Health Care and Life Insurance Benefits (Continued)

\$132 to \$140 during 2011 for retiree-only coverage without Medicare. The fiscal year 2012 premiums for a retiree and spouse ranged from \$162 to \$168 per month for those with Medicare or from \$482 to \$509 per month for those without Medicare. The fiscal year 2011 premiums for a retiree and spouse range from \$145 to \$152 per month for those with Medicare or from \$431 to 453 per month for those without Medicare.

The plan is currently financed on a pay as you go basis, with the Retirement System contributing anywhere from \$271 to \$281 per month during 2012 and \$241 to \$253 per month during 2011 for retiree-only coverage with Medicare or from \$819 to \$864 per month during 2012 and \$857 to \$900 per month for retiree-only coverage without Medicare during fiscal year 2011. Also, the Retirement System's contributions ranged from \$486 to \$505 per month during 2012 and \$434 to \$456 per month during 2011 for retiree and spouse with Medicare or \$1,446 to \$1,526 per month during 2012 and \$1,316 to \$1,382 per month during 2011 for retiree and spouse without Medicare.

OGB also provides eligible retirees Basic Term Life, Basic Plus Supplemental Term Life, Dependent Term Life and Employee Accidental Death and Dismemberment coverage, which is underwritten by The Prudential Insurance Company of America. The total premium is approximately \$1 per thousand dollars of coverage of which the employer pays one half of the premium. Maximum coverage is capped at \$50,000 with a reduction formula of 25% at age 65 and 50% at age 70, with AD&D coverage ceasing at age 70 for retirees.

Annual OPEB Cost

The Retirement System's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, would cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. A level percentage of payroll amortization method, open period, was used. The total ARC for the fiscal years ending June 30, 2012 and 2011 is \$24,400 and \$43,800, respectively, as set forth below:

The following table presents the Retirement System's OPEB Obligation for the fiscal years 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|------------------|------------------|
| Annual required contribution | \$ 24,400 | \$ 43,800 |
| Interest on Net OPEB Obligation | 11,900 | 10,100 |
| ARC Adjustment | <u>(11,300)</u> | <u>(9,600)</u> |
| OPEB Cost | 25,000 | 44,300 |
| Adjustment | - | (143) |
| Contributions made (retiree cost) | <u>-</u> | <u>-</u> |
| Change in Net OPEB Obligation | 25,000 | 44,157 |
| Beginning Net OPEB Obligation, July 1 | <u>296,700</u> | <u>252,543</u> |
| Ending Net OPEB Obligation June 30 | <u>\$321,700</u> | <u>\$296,700</u> |

Utilizing the pay-as-you-go method, the Retirement System contributed 0% of the annual postemployment benefits cost during 2012 and 2011.

Funded Status and Funding Progress

A trust was established with an effective date of July 1, 2008, but was not funded at all, has no assets, and hence has a funded ratio of zero. Since the plan was not funded, the entire actuarial accrued liability of \$220,300 and \$408,200 for the years ended June 30, 2012 and 2011, respectively, was unfunded.

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Note 8 - Postemployment Health Care and Life Insurance Benefits (Continued)

The funded status of the plan as determined by an actuary as of July 1, 2011 and 2010 was as follows:

| | <u>July 1, 2011</u> | <u>July 1, 2010</u> |
|--|---------------------|---------------------|
| Actuarial accrued liability (AAL) | \$ 220,300 | \$ 408,200 |
| Actuarial value of plan assets | <u>0</u> | <u>0</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>220,300</u> | <u>408,200</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0% | 0% |
| Covered payroll (annual payroll of active members) | \$ 154,200 | \$ 225,400 |
| UAAL as a percentage of covered payroll | 143% | 181% |

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the July 1, 2011 and 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and initial annual healthcare cost trend rate of 8.0% and 9.1% for pre-Medicare and Medicare eligibles, respectively, scaling down to ultimate rates of 5% per year. The Retirement System's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2011 was twenty-six years.

Note 9 – Funded Status and Funding Progress

The funded status of the Retirement System as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

| Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u> | Unfunded (Overfunded) (AAL) (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Annual Covered Payroll <u>(c)</u> | UAAL as a Percentage of Covered Payroll <u>(b-a/c)</u> |
|---|---|---|---------------------------------|--|--|
| \$ 415,966 | \$ 759,653 | \$ 343,687 | 54.8% | \$ 57,828 | 594.3% |

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

Note 9 – Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as required supplementary information (RSI) follows the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|---|
| Valuation date | June 30, 2012 |
| 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 | 17 years |
| 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, subject to Corridor Limits of 80% to 120% of the market value of assets. |
| Actuarial assumptions | |
| Investment rate of return | 7.5% net expenses. |
| Projected salary increases | 4.5% - 15.5% based upon a member's years of service. |
| Administrative expenses | Expenses are included in aggregate normal cost and are assumed to be \$523,000 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 in the Retirement System's experience account. |

Note 10 - Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued of September 26, 2012, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Note 11 - Required Supplemental Information

In accordance with GASB 50, 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, 2007 THROUGH JUNE 30, 2012**

| <u>Fiscal Date</u> | <u>Actuarial Required Contribution</u> | <u>Percent Contributed Employer</u> |
|------------------------|--|---|
| 2007 | \$ 18,482,551 | 226.8% |
| 2008 | 16,208,885 | 116.7% |
| 2009 | 20,705,663 | 96.0% |
| 2010 | 34,935,975 | 84.9% |
| 2011 | 36,257,596 | 101.0% |
| 2012 | 38,052,718 | 101.5% |

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2007 THROUGH JUNE 30, 2012
(Dollar Amounts in Thousands)**

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u> | Unfunded (Overfunded) (AAL) (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Annual Covered Payroll <u>(c)</u> | UAAL as a Percentage of Covered Payroll <u>(b-a/c)</u> |
|---------------------------------------|---|---|---|---------------------------------|--|--|
| 2007 | \$ 428,880 | \$ 587,527 | \$ 158,647 | 73.0% | \$ 49,763 | 318.8% |
| 2008 | 438,075 | 637,832 | 199,757 | 68.7% | 56,728 | 352.1% |
| 2009 | 395,905 | 678,307 | 282,402 | 58.4% | 59,556 | 474.2% |
| 2010 | 391,669 | 704,747 | 313,078 | 55.6% | 59,340 | 527.6% |
| 2011 | 401,146 | 740,257 | 339,111 | 54.2% | 58,592 | 578.8% |
| 2012 | 415,966 | 759,653 | 343,687 | 54.8% | 57,828 | 594.3% |

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST EMPLOYMENT BENEFITS
FOR THE YEARS ENDED JUNE 30, 2010 THROUGH JUNE 30, 2012**

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Projected Unit Cost | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|---|---------------------|--------------|-----------------|---|
| 07/01/2009 | \$0 | \$674,000 | \$674,000 | 0% | \$219,400 | 307% |
| 07/01/2010 | \$0 | \$408,200 | \$408,200 | 0% | \$225,400 | 181% |
| 07/01/2011 | \$0 | \$220,300 | \$220,300 | 0% | \$154,200 | 143% |

SUPPLEMENTARY INFORMATION

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
 SUPPLEMENTARY INFORMATION
 SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|-------------------|-------------------|
| Salaries | \$ 235,832 | \$ 231,934 |
| Salary related expenses | 86,924 | 69,027 |
| Accounting and auditing | 51,880 | 51,880 |
| Actuarial fees | 22,884 | 20,241 |
| Computer consulting | 4,800 | 4,800 |
| Dues and subscriptions | 1,237 | 856 |
| Equipment rental | 3,183 | 4,774 |
| Insurance | 1,337 | 1,361 |
| Legal fees | 14,679 | 46,740 |
| Maintenance and repairs | 13,866 | 2,346 |
| Medical exams | 1,050 | 488 |
| Miscellaneous | 3,791 | 3,256 |
| Office lease | 11,829 | 28,438 |
| Other post-employment benefits | 25,000 | 44,300 |
| Postage | 14,011 | 22,706 |
| Office supplies | 10,453 | 5,535 |
| Telephone | 1,958 | 2,048 |
| Travel and seminars | 9,126 | 6,859 |
| Board fees | 2,772 | 3,334 |
| Utilities | 5,650 | 4,304 |
| | <u>\$ 522,262</u> | <u>\$ 555,227</u> |

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
SUPPLEMENTARY INFORMATION
SCHEDULES OF INVESTMENTS
JUNE 30, 2012 AND 2011**

| | <u>2012</u> | | <u>2011</u> | |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>Cost</u> | <u>Market Value</u> | <u>Cost</u> | <u>Market Value</u> |
| Short-term investments | \$ 9,310,499 | \$ 9,310,499 | \$ 20,349,402 | \$ 20,349,402 |
| U.S. Government agency obligations | 12,896,202 | 13,691,470 | 14,164,433 | 14,857,052 |
| Bonds - domestic | 59,210,027 | 64,658,886 | 53,421,256 | 58,554,441 |
| Bonds - international | - | - | 871,696 | 885,744 |
| Bond index fund | 18,663,155 | 32,589,094 | 18,666,819 | 30,340,610 |
| Common stocks - domestic | 111,552,272 | 136,530,417 | 113,871,969 | 142,827,439 |
| Common stocks - international | 21,754,781 | 22,703,784 | 44,928,562 | 52,605,143 |
| Equity index fund | 55,164,987 | 72,231,337 | 63,301,097 | 79,948,544 |
| Preferred stocks | 1,918,425 | 2,003,804 | 1,704,365 | 1,698,678 |
| Real estate funds | 39,219,069 | 33,700,227 | 34,338,025 | 27,624,949 |
| Alternative investments | 61,350,160 | 61,257,867 | 19,559,990 | 18,603,761 |
| Totals | <u>\$ 391,039,577</u> | <u>\$ 448,677,385</u> | <u>\$ 385,177,614</u> | <u>\$ 448,295,763</u> |

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD COMPENSATION
FOR THE YEAR ENDED JUNE 30, 2012**

| | |
|----------------|----------------|
| Robert Carbary | \$1,125 |
| Shirley Bourg | 450 |
| Bobby Smith | <u>300</u> |
| Total | <u>\$1,875</u> |

These members are receiving per diem payments and reimbursement for mileage in accordance with R.S 11:182 and PPM 49, respectively.



**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***

September 26, 2012

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

We have audited the basic financial statements of the Louisiana State Police Pension and Retirement System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 26, 2012. 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, 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.

Hienz & Macaluso, LLC
Metairie, LA

**LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

No findings were noted in the audit as of and for the year ended June 30, 2011.

LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM
SUMMARY SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expressed an unqualified opinion on the financial statements of the Louisiana State Police Pension and Retirement System.
2. There are no significant deficiencies reported relating to the audit of the financial statements.
4. No instances of noncompliance material to the financial statements of the Louisiana State Police Pension and Retirement System were disclosed during the audit.
5. There was no management letter issued for the year ended June 30, 2012.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings related to the financial statements for the year ended June 30, 2012.