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**Louisiana State Police Retirement System**  
**Baton Rouge, Louisiana**  
**June 30, 2004**

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Release Date 10-13-04

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August 12, 2004

**Independent Auditor's Report**

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

Members of the Board:

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

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

a component unit of the State of Louisiana, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended, which collectively comprise the System's basic financial statements. These financial statements are the responsibility of the Louisiana State Police 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. These 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 Retirement System as of June 30, 2004 and 2003, and the changes in 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 August 12, 2004, on our consideration of the Louisiana State Police Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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.

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 opinions on the financial statements that collectively comprise the Louisiana State Police 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 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 when considered in relation to the financial statements taken as a whole.

Yours truly,

*Harrison, Wynn, Smith & Powell, L.L.P.*

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

The following discussion and analysis of the Louisiana State Police Retirement System ("Retirement System") for the year ended June 30, 2004 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 \$77.1 million, or 10%. 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 \$50.4 million, compared to net investment income of \$12.0 million in 2003. This increase in income was, again, the result of the upturn in the domestic and international equity markets.

The amount of benefit payments increased 1.4 million from the amount paid in the previous year.

### Other System Highlights

During the fiscal year ended June 30, 2004 the Retirement System completed an Asset and Liability Study and an Experience Study. These two studies provided the basis for re-evaluation of the Asset Allocation Plan, which resulted in an increase in the allocation to international equities. The long-term impact of the decision should increase the Retirement System's investment performance and reduce the risk associated with the portfolio.

Pursuant to Act Number 676 of the 2000 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.

### 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:

**Statement 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 as June 30, 2004.

**Statement of Changes in Plan Net Assets** - This statement reports the results of operations during the fiscal year, comprising 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, as the Statement 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 (DROOP), 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, Reserves and Designations)** Describes contributions to the Retirement System, the Reserve Funds, DROOP, IRD, Annuity Savings, Pension Accumulation and Annuity Reserve, and the Designated Fund, which reflects the portion of the fund balance that the Retirement System has set aside for a specific purpose.

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

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

### Notes to the Financial Statements (Continued)

Note 5 (Cash, Cash Equivalents and Investments) Describes investments, including authority and policy, investment risk disclosures, 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.

Note 7 (Operating Leases) Provides the Retirement System's lease expense for the year and minimum/lease payments for the remaining life of the lease.

Note 8 (Changes in Plan Benefits) Defines current legislation from the 2004 and 2005 regular sessions.

Note 9 (Contingent Liabilities) Details lawsuit for additional compensation filed by one of the Retirement System's former employees. The Retirement System believes the lawsuit is without merit and is defending its position. 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 describe key actuarial assumptions and methods used in the schedules.

**Supporting Schedules** - These schedules include information on administrative expenses, investments, board compensation and changes in reserve balances.

### Louisiana State Police 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, 2004 amounted to \$284.3 million, which was an increase of \$27.1 million, or 14 percent, from the \$257.2 million held at June 30, 2003.

**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 2003 legislation. The Retirement System recognized a current year net investment increase of 11.4 million compared to the 12.8 million increase in the prior year.

| Additions to Net Assets      | 2004                | 2003                | 2002                | 2004<br>Percentage<br>Change |
|------------------------------|---------------------|---------------------|---------------------|------------------------------|
| Employer contributions       | \$4,095,879         | \$3,929,839         | \$2,770,439         | 2%                           |
| Employer contributions       | 23,412,849          | 23,798,866          | 23,807,994          | 4%                           |
| Insurance premium tax        | 1,900,000           | 1,900,000           | 1,300,000           | 0%                           |
| Net investment income (loss) | 31,343,198          | 12,815,967          | 17,177,320          | 145%                         |
| Transfers to                 | 815,945             | 360,397             | 217,991             | 123%                         |
| Miscellaneous                | 23,522              | 19,882              | -                   | 26%                          |
| <b>Total additions</b>       | <b>\$61,720,885</b> | <b>\$62,613,244</b> | <b>\$44,172,744</b> | <b>47%</b>                   |

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

**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 are deductions for administrative expenses and refunds of contributions. Pension payments to retirees, survivors, and beneficiaries amounted to \$23.9 million for 2004, which represented an increase of 1.4 million from the \$22.5 million paid in 2003. The increase was due to an increase in normal monthly payments to pensioners, as well as an increase in OROP fund distributions. The 2004 administrative expenses represented only 1.7% of total plan deductions, which is consistent with the prior year's 1.4%.

| <b>Deductions from Plan Net Assets</b>   |                     |                     |                     | <b>2004</b>              |
|--|---------------------|---------------------|---------------------|--------------------------|
|  | <b>2003</b>         | <b>2002</b>         | <b>2001</b>         | <b>Percentage Change</b> |
| Pensions paid                            | \$23,889,741        | \$22,484,509        | \$21,181,551        | 6%                       |
| Refunds and withdrawals                  | 298,613             | 193,894             | 283,428             | 54%                      |
| Administrative and depreciation expenses | 429,277             | 381,219             | 354,953             | 13%                      |
| <b>Total Deductions</b>                  | <b>\$24,617,631</b> | <b>\$22,859,622</b> | <b>\$21,820,932</b> | <b>7%</b>                |

**Investments** - Total investments amounted to \$117.6 million at June 30, 2004 as compared to \$219.4 million at June 30, 2003, which represented an increase of \$43.2 million or 15.7%. The Retirement System's market return was 11.0%, the benchmark for the overall portfolio returned a 11.7% and the average peer-group for System's withdrawal asset allocation 13.5% 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 just each business day. Therefore, the reader should be cautious about drawing conclusions as to how and why the portfolio is 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.

| <b>Investments, at fair value</b>                |                     |                     |                     | <b>2004</b>              |
|--|---------------------|---------------------|---------------------|--------------------------|
|  | <b>2003</b>         | <b>2002</b>         | <b>2001</b>         | <b>Percentage Change</b> |
| Short-term investments                           | \$8,141,905         | \$11,728,959        | \$15,734,999        | -27%                     |
| U.S. Government agency obligations               | 23,418,449          | 23,891,057          | 35,894,587          | 9%                       |
| Bonds - domestic                                 | 26,186,838          | 26,540,198          | 40,949,081          | -1%                      |
| Bonds - international                            | 924,180             | 1,007,108           | 880,000             | -8%                      |
| Fixed Index Fund                                 | 88,443,798          | 88,282,510          | 36,411,484          | 13%                      |
| Common stocks - domestic                         | 84,919,736          | 77,458,632          | 30,526,717          | 22%                      |
| Common stocks - international                    | 21,298,842          | 24,348,108          | 20,743,087          | -12%                     |
| Equity Index Fund                                | 38,196,595          | 38,815,838          | 21,373,217          | 62%                      |
| Preferred stocks                                 | 344,426             | 313,518             |                     | 78%                      |
| Preferred convertibles                           |                     | 282,420             |                     | 100%                     |
| Collateral held under securities lending program | 14,665,718          | 7,828,698           | 1,081,224           | 85%                      |
| <b>Total Investments</b>                         | <b>\$17,469,181</b> | <b>\$24,495,117</b> | <b>\$23,077,178</b> | <b>14%</b>               |

**REQUESTS FOR INFORMATION**

This Annual Financial Report is designed to provide a general overview of the Louisiana State Police Retirement System's finances to interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the Louisiana State Police Retirement System, 2000 Poydras Drive, Suite B, Baton Rouge, Louisiana 70802.

**Louisiana State Police Retirement System**  
**Statements of Plan Net Assets**  
**June 30, 2004 and 2003**

| <b>Assets</b>   | <b>2004</b>        | <b>2003</b>        |
|---|--------------------|--------------------|
| Cash and cash equivalents   | <u>\$168,767</u>   | <u>\$ -0-</u>      |
| Receivables   |                    |                    |
| Employer contributions  | 262,481            | 242,891            |
| Employee contributions  | 189,811            | 83,004             |
| Pending trades  | 881,568            | 584,798            |
| Accrued interest and dividends  | 1,045,243          | 1,034,489          |
| Other receivables   | <u>17,818</u>      | <u>29,626</u>      |
| <b>Total receivables</b>  | <u>2,396,919</u>   | <u>1,974,798</u>   |
| Investments, at fair value  |                    |                    |
| Short-term investments  | 8,541,965          | 11,738,909         |
| U.S. Government agency obligations  | 23,818,449         | 25,808,857         |
| Bonds - domestic  | 38,086,838         | 36,543,190         |
| Bonds - international   | 924,180            | 1,007,000          |
| Bond Index Fund   | 46,443,794         | 40,382,253         |
| Common stocks - domestic  | 94,519,378         | 77,458,832         |
| Common stocks - international   | 21,298,842         | 24,248,000         |
| Equity Index Fund   | 30,196,395         | 30,815,850         |
| Preferred stocks  | 561,426            | 313,358            |
| Preferred securities  |                    | 282,423            |
| Collateral held under securities lending program                                | <u>14,666,378</u>  | <u>7,538,068</u>   |
| <b>Total investments</b>  | <u>187,568,183</u> | <u>224,485,173</u> |
| Properties, at cost (net of accumulated depreciation of \$186,142 and \$93,268) | <u>21,406</u>      | <u>13,033</u>      |
| <b>Total assets</b>   | <b>220,068,462</b> | <b>276,414,973</b> |
| <b>Liabilities</b>  |                    |                    |
| Cash overdraft  |                    | 1,431              |
| Accounts payable  | 481,429            | 412,212            |
| Pending trades payable  | 598,094            | 838,294            |
| Obligations under securities lending program                                    | <u>14,666,378</u>  | <u>7,538,068</u>   |
| <b>Total liabilities</b>  | <u>15,745,901</u>  | <u>9,189,995</u>   |
| <b>Net Assets Held in Trust For Pension Benefits</b>                            |                    |                    |
| (A schedule of funding progress is presented on page 27)                        | <u>204,322,561</u> | <u>267,224,978</u> |

The accompanying notes are an integral part of these statements.



**Louisiana State Police Retirement System**  
**Statements of Changes in Plan Net Assets**  
**Years Ended June 30, 2004 and 2003**

|  | <b>2004</b>        | <b>2003</b>        |
|--|--------------------|--------------------|
| <b>Additions</b>                                     |                    |                    |
| Employer Contributions                               |                    |                    |
| Appropriations                                       | \$21,000,174       | \$20,473,174       |
| Motor vehicle fees                                   | 1,911,875          | 1,825,693          |
| Insurance premium tax                                | 1,500,000          | 1,900,000          |
| Member contributions                                 | <u>4,090,079</u>   | <u>1,820,839</u>   |
|  | <u>29,502,128</u>  | <u>26,020,706</u>  |
| Investment Income                                    |                    |                    |
| Net appreciation in fair value of investments        | 25,548,891         | 1,082,823          |
| Interest and dividends                               | 6,771,828          | 6,546,808          |
| Securities lending interest                          | <u>189,176</u>     | <u>141,525</u>     |
|  | <u>32,509,895</u>  | <u>7,771,156</u>   |
| Less Investment Expenses                             |                    |                    |
| Custodial services                                   | 73,317             | 83,373             |
| Investment manager                                   | 845,666            | 683,770            |
| Investment consultant                                | 70,800             | 70,000             |
| Securities lending                                   | 143,862            | 121,079            |
| Foreign taxes withheld                               | <u>9,252</u>       | <u>6,081</u>       |
|  | <u>1,142,897</u>   | <u>944,303</u>     |
| Net investment income                                | <u>31,367,098</u>  | <u>12,825,967</u>  |
| <b>Other Additions</b>                               |                    |                    |
| Transfers in - employer and interest                 | 532,001            | 179,939            |
| Transfers in - employee                              | 283,944            | 85,268             |
| Miscellaneous  | <u>24,529</u>      | <u>18,402</u>      |
|  | <u>840,474</u>     | <u>283,612</u>     |
| Total additions                                      | <u>41,708,800</u>  | <u>42,038,384</u>  |
| <b>Deductions</b>                                    |                    |                    |
| Benefits paid  | 23,889,741         | 22,484,303         |
| Refunds of employee contributions                    | 298,653            | 193,891            |
| Administrative expenses                              | 416,304            | 366,353            |
| Depreciation   | <u>12,872</u>      | <u>14,525</u>      |
| Total deductions                                     | <u>24,617,570</u>  | <u>23,059,072</u>  |
| <b>Net Increase</b>                                  | <b>17,091,230</b>  | <b>18,979,312</b>  |
| <b>Net Assets Held in Trust For Pension Benefits</b> |                    |                    |
| Beginning of Year                                    | <u>267,234,915</u> | <u>248,255,603</u> |
| End of Year  | <u>284,326,145</u> | <u>267,234,915</u> |

The accompanying notes are an integral part of these statements.

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 1—Plan Description**

The Louisiana State Police 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.

Under Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" (GASB 14), the definition of a reporting entity is based primarily on the concept of financial accountability. In determining 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 legally 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.

**Louisiana State Police Retirement System  
Notes to Financial Statements  
June 30, 2004 and 2003**

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

Pursuant to Act Number 876 of the 2003 Regular Session of the Louisiana Legislature, the Retirement System became a qualified system on January 1, 2004, under Section 401(a) for the Internal Revenue Code.

The plan membership as of June 30, 2004 and 2003, is as follows:

|  | <b>2004</b>         | <b>2003</b>         |
|--|---------------------|---------------------|
| Retirees and beneficiaries currently receiving benefits, and deferred retirement plan participants | 1,091               | 1,074               |
| Terminated vested members not yet receiving benefits   | 22                  | 21                  |
| Current, active employees (vested and non-vested)  | 978                 | 948                 |
| IRACP  | <u>36</u>           | <u>45</u>           |
|  | <b><u>2,127</u></b> | <b><u>2,088</u></b> |

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 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 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 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 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.

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

**B. Disability Retirement (Continued)**

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.

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 years of service or more - 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.

**C. 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.

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

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

Any active member who is eligible to receive a service retirement is eligible to participate in the Deferred Retirement Option Plan (DROOP) and defer receipt of benefits. This program was created by Act 11 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 DROOP participation period, a participant may be paid in any manner the participant chooses subject to the Internal Revenue Service guidelines. Upon completion of the DROOP period regardless of employment status, the member's individual DROOP 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.

**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 in an interest-bearing account similar to a DROOP account. Interest earnings and withdrawals will be the same as for DROOP accounts. The difference between the "Initial Benefit Option" and "DROOP" option is that the account created under the "Initial Benefit Option" is created with a lump sum, rather than amounts which accumulate over a DROOP participation period.

Only members who have not participated in the Deferred Retirement Option Plan (DROOP) 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 in accordance with accounting principles generally accepted in the United States of America. The Retirement System implemented Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" (Statement 34), effective July 1, 2001.

Statement 34 primarily relates to presentation and disclosure requirements and had no monetary impact on the financial statements. As a result of adoption, Management's Discussion and Analysis and Required Supplementary Information has been included.

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

**A. Basis of Accounting (Continued)**

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 in the period in which employees provide services to the entity. 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 deduction from plan net assets during the reporting period. Actual results could differ from these 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**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at 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.

No investments in any one organization represent 5% or more of the net assets available for pension benefits. There are no investments in loans to, or leases with, parties related to the Plan. Although the Board continued its contractual relationships with outside third party investment managers during 2004, final oversight of investments and investment performance remains with the Board.

Purchases and sales of investments are recorded on a trade date basis.

**D. Properties**

Properties consist of furniture, fixtures and equipment and are stated at cost and are being depreciated on the straight-line basis over their estimated useful lives. The estimated useful lives range from 3 to 10 years.

**E. Reclassifications**

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

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

**F. New Accounting Pronouncements**

The System opted for early implementation of GASB Statement No. 40, "Deposit and Investment Risk Disclosures," issued in March 2003. The statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This pronouncement has no impact on the System's net assets.

**Note 3-Contributions, Reserves and Designations**

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.

**Reserve Funds**

Use of the term "reserve" by the Retirement System indicates that a portion of the Net Assets Held in Trust for Pension Benefits is legally restricted for a specific future use. The nature and purpose of these reserves are explained below.

**A. Deferred Retirement Option Account**

The Deferred Retirement Option Account consists of the reserves for all participants, who upon retirement eligibility, elect to deposit into this account an amount equal to the participant's monthly benefit as if the participant had retired. A participant can only participate in the program for three years, and upon termination may receive benefits in a lump sum payment, by a true annuity or in any other manner approved by the Board. The Deferred Retirement Option Account as of June 30, 2004 and 2003 is \$20,102,828 and \$18,519,298, respectively. The Deferred Retirement Option Account is fully funded.

**B. Initial Benefit Obligation Account**

The Initial Benefit Obligation Account consists of reserves for all participants who upon eligibility elect to deposit into this account a lump sum in the amount of no more than 36 months of monthly retirement benefits. The retiree can receive the amount as a lump sum or in any other manner. If the retiree elects not to withdraw the total money on deposit, the deposit will earn interest. The Initial Benefit Obligation Account as of June 30, 2004 and 2003 is \$484,043. The Initial Benefit Obligation Account is fully funded.

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 3-Contributions, Reserves and Designations (Continued)**

**Reserve Funds (Continued)**

**C. Annuity Savings**

The Annuity Savings is credited with contributions made by participants of the Retirement System. When a participant terminates service, or upon death before qualifying for a benefit, the refund of participant's contributions is made from this reserve. If a participant dies and there is a survivor who is eligible for a benefit, the amount of the participant's accumulated contributions is transferred from the Annuity Savings to the Annuity Reserve. When a participant retires, the amount of accumulated contributions is transferred to the Annuity Reserve to provide part of the benefits. The Annuity Savings as of June 30, 2004 and 2003 is \$26,244,048 and \$22,673,161, respectively. The Annuity Savings is fully funded.

**D. Pension Accumulation**

The Pension Accumulation consists of contributions paid by employees, interest earned on investments and any other income not covered by other accounts. This reserve account is charged annually with an amount, determined by the actuary, to be transferred to the Annuity Reserve to fund retirement benefits for existing recipients. It is also relieved when expenditures are not covered by other accounts. The Pension Accumulation as of June 30, 2004 and 2003, is \$148,763,844 and \$130,195,326, respectively. The Pension Accumulation includes the assets from the Texas Settlement Fund in the amount of \$40,756,843 as of June 30, 2004, and \$39,077,491 as of June 30, 2003. As a result, the Pension Accumulation is 27% funded by the assets from the Texas Settlement Fund as of June 30, 2004.

**E. Annuity Reserve**

The Annuity Reserve consists of the reserves for all pensions, including cost-of-living increases, granted to participants and is the reserve account from which such pensions and annuities are paid. Survivors of deceased beneficiaries also receive benefits from this reserve account. The Annuity Reserve as of June 30, 2004 and 2003 is \$281,488,640 and \$275,978,652, respectively. The Annuity Reserve is approximately 61.9% funded.

**Designations**

Use of the term "designation" by the Retirement System indicates that a portion of the net assets held for trust pension benefits has been set aside by the Retirement System to reflect plans or commitments of the Retirement System's resources.

In accordance with the interpretation of the Division of Administration and the Public Retirement System's Actuarial Committee, the Retirement System has designated the assets received from the Texas Settlement Fund and removed it from the assets for funding purposes only. The Texas Settlement Fund assets will accrue interest at the actuarial yield until the accumulated balance equals the outstanding balance of the initial funded liability. At that time, the remaining initial Unfunded Accrued Liability will be liquidated. The Texas Settlement Fund account balance as of June 30, 2004 and 2003 is \$40,756,843 and \$39,077,491, respectively.



**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**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 benefits 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 last 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, 2004, the carrying amount of the Retirement System's cash was \$169,762 and the bank balance was \$578,454, 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. At June 30, 2003, the carrying amount of the Retirement System's cash was a bank overdraft of \$1,451 and the bank balance was \$422,531, 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 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.

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

**Investments (Continued)**

The System has no investments of any single organization (other than those issued or guaranteed by the U.S. Government) that represents 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 2004, the System's investments (including investments bought, sold, and held during the year) appreciated in value by \$23,349,091 compared to appreciation of \$7,082,823 in 2003.

|   | <u>2004</u>       | <u>2003</u>       |
|---|-------------------|-------------------|
| Increase/(Decrease) in fair value of investments held at year end:              | \$19,168,219      | \$13,173,194      |
| Realized gains/(losses) on investments including currency sold during the year: | <u>4,408,881</u>  | <u>46,090,319</u> |
|   | <u>23,577,100</u> | <u>7,082,823</u>  |

The following table presents the fair value of investments by type at June 30, 2004 and 2003, respectively.

|  | <u>2004</u><br><u>Fair Value</u> | <u>2003</u><br><u>Fair Value</u> |
|--|----------------------------------|----------------------------------|
| <b>Investments - Type</b>                                |                                  |                                  |
| U.S. Government Agency obligations                       |                                  |                                  |
| Not on securities loan                                   | \$23,818,449                     | \$23,861,057                     |
| Bonds  |                                  |                                  |
| Domestic not on securities loan                          | 58,186,838                       | 58,399,640                       |
| Domestic on securities loan for securities collateral    |                                  | 143,750                          |
| Preferred convertible                                    |                                  | 282,421                          |
| International  | 924,188                          | 1,807,180                        |
| Bond Index Fund  | 48,443,794                       | 48,282,123                       |
| Common Stocks  |                                  |                                  |
| Domestic not on securities loan                          | 77,909,248                       | 68,717,186                       |
| Domestic on security loan for security collateral        | 2,221,882                        |                                  |
| Collateral on letter of credit                           | 507,717                          |                                  |
| International  | 11,288,840                       | 14,249,180                       |
| Equity Index Fund  | 58,186,595                       | 38,815,820                       |
| Preferred Stock  | 581,428                          | 213,158                          |
| Short-term investments - Mutual Funds                    | 8,541,805                        | 11,730,829                       |
| Investments held by broker-dealers under securities loan |                                  |                                  |
| Common stocks - domestic                                 | 14,221,311                       | 7,732,858                        |
| <b>Collateral Held Under Securities Lending Program</b>  |                                  |                                  |
| Short-term Master Notes                                  |                                  | 180,000                          |
| Tri-Party Repurchase Agreement                           | <u>14,666,718</u>                | <u>3,428,098</u>                 |
| <b>Total</b>   | <u>517,568,183</u>               | <u>45,680,134</u>                |

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

**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, 2004 and 2003 since all investments were registered in the name of the Retirement System and held in the possession of the Retirement System's custodial bank, Bank One, N.A., Baton Rouge, Louisiana.

**Interest Rate Risk**

As of June 30, 2004, the Retirement System had the following investments and maturities:

| Investment Type                    | Fair Value          | Investment Maturities (in years) |                     |                   |                     |
|------------------------------------|---------------------|----------------------------------|---------------------|-------------------|---------------------|
|                                    |                     | Less than 1                      | 1-5                 | 6-10              | More than 10        |
| U.S. Government Agency Obligations | \$23,818,449        |                                  | \$37,230            | \$698,920         | \$23,818,279        |
| Domestic Bonds                     | 18,188,838          | \$216,112                        | 28,720,807          | 28,178,618        | 6,670,701           |
| International Bonds                | 920,180             |                                  |                     | 400,180           | 519,999             |
| Mutual Funds                       | 8,541,905           | 8,541,905                        |                     |                   |                     |
| <b>Total</b>                       | <b>\$32,479,372</b> | <b>\$8,768,027</b>               | <b>\$28,839,637</b> | <b>29,677,738</b> | <b>\$30,817,979</b> |

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, 2004, was as follows:

|  | Total               | Domestic            | International    |
|--|---------------------|---------------------|------------------|
| AAA                                      | \$3,206,638         | \$3,206,638         |                  |
| AA                                       | 963,438             | 963,438             |                  |
| AA-                                      | 3,872,960           | 3,872,960           |                  |
| A+                                       | 12,378,139          | 12,378,139          |                  |
| A  | 10,488,947          | 10,488,947          |                  |
| A-                                       | 9,878,769           | 9,878,769           |                  |
| BBB+                                     | 6,428,484           | 6,428,484           |                  |
| BBB                                      | 6,511,883           | 6,511,883           |                  |
| BBB-                                     | 4,318,198           | 3,794,038           | 524,160          |
| BB+                                      | 1,362,688           | 1,362,688           |                  |
| BB-                                      | 768,920             | 768,920             |                  |
| <b>Total credit risk debt securities</b> | <b>\$73,111,028</b> | <b>\$68,198,838</b> | <b>\$524,160</b> |

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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

**Credit Risk (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 other 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, 2004, was as follows:

|                               | Percent       | Total             | Bonds          | Common<br>Stocks  |
|-------------------------------|---------------|-------------------|----------------|-------------------|
| Australian dollar             | 1.36          | \$60,790          |                | \$60,790          |
| Bahamas dollar                | 0.42          | 93,238            |                | 93,238            |
| Bonadian dollar               | 4.03          | 918,568           |                | 918,568           |
| Canadian dollar               | 8.16          | 1,812,369         |                | 1,812,369         |
| Cayman Islands dollar         | 0.26          | 58,216            |                | 58,216            |
| Chinese yuan renminbi         | 2.73          | 607,696           |                | 607,696           |
| Euro                          | 0.86          | 12,778            |                | 12,778            |
| Great Britain pound           | 4.34          | 964,268           |                | 964,268           |
| Mexican peso                  | 4.16          | 934,188           | 934,188        | -                 |
| Netherlands Antillian guilder | 0.25          | 78,898            |                | 78,898            |
| Peru pes                      | 0.24          | 53,729            |                | 53,729            |
| Puerto Rican dollar           | 1.19          | 263,925           |                | 263,925           |
| Swiss franc                   | 3.80          | 666,738           |                | 666,738           |
| International pooled funds    | <u>69.60</u>  | <u>15,466,671</u> | <u>934,188</u> | <u>15,466,671</u> |
|                               | <u>100.00</u> | <u>22,223,032</u> | <u>934,188</u> | <u>21,298,842</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 Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**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 982% of the market value of the securities on loan. 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 inform 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' issues 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, 2004:

|                                | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Deletions</u> | <u>Ending<br/>Balance</u> |
|--------------------------------|------------------------------|-------------------|------------------|---------------------------|
| Office equipment and furniture | \$107,069                    | \$2,229           |                  | \$110,298                 |
| Automobile                     | <u>19,250</u>                | <u>          </u> |                  | <u>19,250</u>             |
|                                | 126,319                      | 2,229             |                  | 128,548                   |
| Less: accumulated depreciation | <u>(53,269)</u>              | <u>(12,873)</u>   |                  | <u>(66,142)</u>           |
|                                | <u>\$73,050</u>              | <u>\$9,356</u>    |                  | <u>\$82,406</u>           |

Depreciation expenses for the years ended June 30, 2004 and 2003, were \$12,873 and \$14,913, respectively.

**Note 7-Operating Lease**

The Retirement System entered into an operating lease for office space beginning January 1, 2001. The term is for five years at \$2,366 per month. Lease expenses for the years ended June 30, 2004 and 2003 were \$28,391 and \$29,133, respectively.

The minimum lease payments for the remaining 4 1/2 of the lease are as follows:

|      |                 |
|------|-----------------|
| 2005 | \$28,391        |
| 2006 | <u>14,186</u>   |
|      | <u>\$42,577</u> |

**Louisiana State Police Retirement System**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 8-Changes in Plan Benefits**

Act 859 of the 2004 Regular Legislative Session gives the Louisiana State Police Retirement System the flexibility to increase equities to 65%, as long as 10% is indexed.

Act 211 of the 2003 Regular Legislative Session provided a retroactive (to January 1, 1999) benefit to a surviving spouse of less than two years of any member who died of terminal cancer diagnosed prior to April 1, 2003. As a result of Act 211, the actuarial accrued liability (AAL) increased by \$341,306. Act 338 of the 2003 Regular Legislative Session provides a benefit of 100% of final average or \$38,000 annually, whichever is greater, for certain catastrophic disability retirees as of June 30, 2003. As a result of Act 338, the AAL will increase by \$1,479,287. Act 748 of the 2003 Regular Legislative Session provides a 20% longevity bonus on benefits as provided by R.S. 11:1303.1, whichever is greater, for members who participated in DRCOP on or before June 30, 2003 and who continued in employment after DRCOP. As a result of Act 748, the AAL will increase by \$4,992,772.

**Note 9-Contingent Liabilities**

The Retirement System is a defendant in a lawsuit filed by one of its former employees for additional annual, sick, compensatory and bonus leave, allegedly granted to him by the Board of Trustees. Outside counsel for the Retirement System has advised that at this stage in the proceedings, he cannot offer an opinion as to the probable outcome. The Retirement System believes the lawsuit is without merit and is vigorously defending its position.

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 is 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 10-Required Supplementary Information**

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

### Required Supplementary Information

**Louisiana State Police Retirement System**  
**Required Supplementary Information**  
**Schedule of Employer Contributions and Other Sources**  
**June 30, 1996 Through June 30, 2004**  
**(Dollar Amounts in Thousands)**

| <b>Fiscal<br/>Year</b> | <b>Actuarial Required<br/>Contribution<br/>Employer</b> | <b>Percent<br/>Contributed<br/>Employer</b> |
|------------------------|---|---|
| 1996                   | \$19,409,288  | 113.2%                                      |
| 1997                   | 18,688,943  | 113.4%                                      |
| 1998                   | 19,131,381  | 118.6%                                      |
| 1999                   | 19,233,721  | 119.5%                                      |
| 2000                   | 20,681,122  | 114.6%                                      |
| 2001                   | 20,152,687  | 128.8%                                      |
| 2002                   | 21,153,440  | 124.6%                                      |
| 2003                   | 24,411,321  | 167.2%                                      |
| 2004                   | 38,288,239  | 87.0%                                       |



**Louisiana State Police Retirement System**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**June 30, 1996 Through June 30, 2004**  
(Dollar Amounts in Thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) Entry<br>Age<br>(b) | Unfunded<br>(Overfunded)<br>AAL (UAAL)*<br>(c-d) | Funded<br>Ratio<br>(a/b) | Annual<br>Covered<br>Payroll<br>(e) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>(c/e) |
|--------------------------------|--|--|--|--------------------------|-------------------------------------|---|
| 1996                           | \$113,314                              | \$273,333  | \$160,419  | 41.3%                    | 24,370                              | 652.9%  |
| 1997                           | 155,308                                | 293,285  | 137,987  | 53.0%                    | 27,780                              | 496.7%  |
| 1998                           | 183,964                                | 313,146  | 129,242  | 60.3%                    | 29,642                              | 439.1%  |
| 1999                           | 216,954                                | 340,399  | 123,245  | 63.8%                    | 35,312                              | 349.3%  |
| 2000                           | 244,005                                | 357,701  | 113,696  | 73.3%                    | 33,603                              | 278.8%  |
| 2001                           | 261,376                                | 353,629  | 94,053   | 73.6%                    | 32,157                              | 292.5%  |
| 2002                           | 271,694                                | 388,898  | 115,804  | 78.3%                    | 31,695                              | 362.8%  |
| 2003                           | 271,662                                | 443,694  | 176,631  | 68.6%                    | 44,148                              | 400.1%  |
| 2004                           | 288,865                                | 477,883  | 188,228  | 68.6%                    | 47,923                              | 392.8%  |

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

**Louisiana State Police Retirement System**  
**Required Supplementary Information**  
**Notes to the Schedule of Trust Data**  
**June 30, 2004**

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, 2004 follows:

|                               |   |
|-------------------------------|---|
| Valuation date                | June 30, 2004   |
| 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 (closed). |
| Remaining amortization period | 5 Years   |
| Asset valuation method        | Based on market value of assets adjusted for a five 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%   |
| Cost of living adjustments    | Future cost of living increases are only granted if specific target ratios are met and excess interest earnings are available to fund the cost of benefit increases.                            |

## Supporting Schedules

**Louisiana State Police Retirement System**  
**Detail Statement of Changes in Reserve Balances**  
**Year Ended June 30, 2004**

|                                   | Assembly<br>Balances | Assembly<br>Reserve | Deferred<br>Retirement<br>System Plan | Initial<br>Benefit<br>Obligation | Pension<br>Accumulation | Actuarial<br>Assessed<br>Liability | Total               |
|-----------------------------------|----------------------|---------------------|---------------------------------------|----------------------------------|-------------------------|------------------------------------|---------------------|
| <b>Balance, July 1, 2003</b>      | <u>\$11,613,116</u>  | <u>\$12,327,663</u> | <u>\$18,132,128</u>                   | <u>\$88,080</u>                  | <u>\$10,182,126</u>     | <u>\$(1,804,284)</u>               | <u>\$58,234,736</u> |
| <b>Revenues and Transfers</b>     |                      |                     |                                       |                                  |                         |                                    |                     |
| Employee contributions            | 4,896,079            |                     |                                       |                                  |                         |                                    | 4,896,079           |
| Employee contributions            |                      |                     |                                       |                                  | 23,911,689              |                                    | 23,911,689          |
| Insurance/Premium Tax             |                      |                     |                                       |                                  | 1,399,000               |                                    | 1,399,000           |
| Net investment                    |                      |                     |                                       |                                  | 31,361,768              |                                    | 31,361,768          |
| Transfers in                      | 283,944              |                     |                                       |                                  | 333,024                 |                                    | 616,968             |
| Other income                      |                      |                     |                                       |                                  | 34,329                  |                                    | 34,329              |
| Transfer to Assembly Savings      |                      | 306,483             |                                       |                                  |                         |                                    | 306,483             |
| Pensions transferred from         |                      |                     |                                       |                                  |                         |                                    |                     |
| Assembly Reserve                  |                      |                     | 3,211,393                             |                                  |                         |                                    | 3,211,393           |
| Actuarial transfer                |                      | 38,644,316          |                                       |                                  |                         | 7,697,306                          | 46,341,622          |
|                                   | <u>4,879,923</u>     | <u>39,011,282</u>   | <u>3,211,393</u>                      | <u>—</u>                         | <u>35,702,717</u>       | <u>7,697,306</u>                   | <u>80,702,621</u>   |
| <b>Expenditures and Transfers</b> |                      |                     |                                       |                                  |                         |                                    |                     |
| Pensions paid                     |                      | 33,438,774          | 1,468,963                             |                                  |                         |                                    | 34,907,737          |
| Refunds to participants           | 298,633              |                     |                                       |                                  |                         |                                    | 298,633             |
| Administrative expenses           |                      |                     |                                       |                                  | 41,384                  |                                    | 41,384              |
| Depreciation                      |                      |                     |                                       |                                  | 12,870                  |                                    | 12,870              |
| Transfer to Assembly Reserve      | 306,483              |                     |                                       |                                  |                         |                                    | 306,483             |
| Pensions transferred to SSOP      |                      | 3,211,393           |                                       |                                  |                         |                                    | 3,211,393           |
| Actuarial transfer                |                      |                     |                                       |                                  | 38,552,882              |                                    | 38,552,882          |
|                                   | <u>595,116</u>       | <u>36,649,167</u>   | <u>1,481,846</u>                      | <u>—</u>                         | <u>38,597,136</u>       | <u>—</u>                           | <u>76,697,115</u>   |
| <b>Net Increase</b>               | <u>1,568,887</u>     | <u>2,362,115</u>    | <u>1,729,547</u>                      | <u>—</u>                         | <u>17,105,581</u>       | <u>7,697,306</u>                   | <u>24,663,436</u>   |
| <b>Balance, June 30, 2004</b>     | <u>\$13,182,003</u>  | <u>\$14,689,778</u> | <u>\$19,861,675</u>                   | <u>\$88,080</u>                  | <u>27,287,707</u>       | <u>\$(1,106,978)</u>               | <u>\$82,893,165</u> |

**Louisiana State Police Retirement System**  
**Detail Statement of Changes in Reserve Balances**  
**Year Ended June 30, 2003**

|   | Amnesty<br>Surplus | Amnesty<br>Reserve | Deferred<br>Retirement<br>System Plan | Initial<br>Benefit<br>Obligation | Pension<br>Accumulation | Actuarial<br>Liability | Total                |
|---|--------------------|--------------------|---------------------------------------|----------------------------------|-------------------------|------------------------|----------------------|
| <b>Balance, July 1, 2002</b>                | <u>21,872,041</u>  | <u>200,014,856</u> | <u>21,292,617</u>                     | <u>488,062</u>                   | <u>293,764,741</u>      | <u>(202,444,411)</u>   | <u>\$298,133,223</u> |
| <b>Revenues and Transfers</b>               |                    |                    |                                       |                                  |                         |                        |                      |
| Employee contributions                      | 3,828,829          |                    |                                       |                                  |                         |                        | 3,828,829            |
| Employer contributions                      |                    |                    |                                       |                                  | 23,198,866              |                        | 23,198,866           |
| Interest on Pensions Set                    |                    |                    |                                       |                                  | 1,500,000               |                        | 1,500,000            |
| Net Investment                              |                    |                    |                                       |                                  | 12,620,767              |                        | 12,620,767           |
| Transfer to                                 | 80,000             |                    |                                       |                                  | 279,538                 |                        | 359,538              |
| Other assets                                |                    |                    |                                       |                                  | 19,482                  |                        | 19,482               |
| Transfer from Amnity Savings                |                    | 1,118,198          |                                       |                                  |                         |                        | 1,118,198            |
| Pensions transferred from<br>Amnity Reserve |                    |                    | 3,282,892                             |                                  |                         |                        | 3,282,892            |
| Account transfer                            |                    | <u>28,407,108</u>  | <u>3,282,892</u>                      |                                  | <u>2,187,886</u>        |                        | <u>34,077,886</u>    |
|   | <u>4,917,907</u>   | <u>30,005,306</u>  |                                       |                                  | <u>28,007,291</u>       |                        | <u>62,922,504</u>    |
| <b>Expenditures and Transfers</b>           |                    |                    |                                       |                                  |                         |                        |                      |
| Pensions paid                               |                    | 2,488,096          | 880,187                               |                                  |                         |                        | 3,368,283            |
| Benefits to participants                    | 703,854            |                    |                                       |                                  |                         |                        | 703,854              |
| Administrative expenses                     |                    |                    |                                       |                                  | 588,183                 |                        | 588,183              |
| Depreciation                                |                    |                    |                                       |                                  | 18,928                  |                        | 18,928               |
| Transfer to Amnity Reserve                  | 1,118,198          |                    |                                       |                                  |                         |                        | 1,118,198            |
| Pensions transferred to DBOP                |                    |                    | 3,282,892                             |                                  |                         |                        | 3,282,892            |
| Actuarial needs                             |                    |                    |                                       |                                  |                         | <u>41,011,194</u>      | <u>41,011,194</u>    |
|   | <u>1,118,198</u>   | <u>24,984,292</u>  | <u>3,282,892</u>                      |                                  | <u>381,718</u>          | <u>41,011,194</u>      | <u>49,678,194</u>    |
| <b>Net Increase (Decrease)</b>              | <u>3,799,709</u>   | <u>5,021,014</u>   | <u>2,292,704</u>                      |                                  | <u>28,826,782</u>       | <u>(41,011,194)</u>    | <u>18,827,015</u>    |
| <b>Balance, June 30, 2003</b>               | <u>25,671,750</u>  | <u>205,035,870</u> | <u>23,585,321</u>                     | <u>488,062</u>                   | <u>322,591,523</u>      | <u>(161,455,215)</u>   | <u>\$307,226,223</u> |

**Louisiana State Police Retirement System**  
**Schedule of Investments**  
**June 30, 2004 and 2003**

|  | <u>June 30, 2004</u> |                    |                     |
|--|----------------------|--------------------|---------------------|
|  | <u>Fac. Value</u>    | <u>Cost</u>        | <u>Market Value</u> |
| <b>Bonds</b>                             |                      |                    |                     |
| Federal Home Loan Mortgage Corporation   | \$8,463,747          | \$8,571,657        | \$8,398,708         |
| Federal National Mortgage Association    | 13,063,208           | 13,498,611         | 13,460,076          |
| Government National Mortgage Association | 1,879,618            | 1,893,003          | 1,939,668           |
| Bonds - Domestic                         | \$4,189,000          | \$4,263,079        | \$6,188,818         |
| Bonds - International                    | 938,000              | 984,768            | 934,180             |
| Bond Index Fund                          |                      | 41,517,508         | 46,445,758          |
| <b>Total bonds</b>                       |                      | <u>121,396,618</u> | <u>137,372,200</u>  |

|                        |  |                    |                    |
|------------------------|--|--------------------|--------------------|
| <b>Stocks</b>          |  |                    |                    |
| Domestic stocks        |  |                    |                    |
| International stocks   |  | 68,218,376         | 94,979,376         |
| Equity Index Fund      |  | 17,139,382         | 21,298,842         |
| Preferred Stock        |  | 43,852,008         | 50,196,292         |
| Preferred Convertibles |  | 198,827            | 561,426            |
| <b>Total stocks</b>    |  | <u>131,608,773</u> | <u>166,976,276</u> |

|  | <u>June 30, 2003</u> |                    |                     |
|--|----------------------|--------------------|---------------------|
|  | <u>Fac. Value</u>    | <u>Cost</u>        | <u>Market Value</u> |
| <b>Bonds</b>                             |                      |                    |                     |
| Federal Home Loan Mortgage Corporation   | \$5,822,717          | \$5,821,880        | \$6,021,186         |
| Federal National Mortgage Association    | 13,379,587           | 13,685,832         | 13,903,791          |
| Government National Mortgage Association | 3,618,924            | 3,708,930          | 3,861,958           |
| Bonds - Domestic                         | \$1,490,880          | \$2,832,841        | \$6,540,186         |
| Bonds - International                    |                      | 864,240            | 1,007,188           |
| Bond Index Fund                          |                      | 35,517,669         | 48,180,120          |
| <b>Total bonds</b>                       |                      | <u>111,765,832</u> | <u>126,650,609</u>  |

|                        |  |                    |                    |
|------------------------|--|--------------------|--------------------|
| <b>Stocks</b>          |  |                    |                    |
| Domestic stocks        |  | \$60,248,079       | 77,458,632         |
| International stocks   |  | 27,270,587         | 24,248,309         |
| Equity Index Fund      |  | 32,890,733         | 38,815,838         |
| Preferred Stock        |  | 284,748            | 315,938            |
| Preferred Convertibles |  | 198,828            | 280,432            |
| <b>Total stocks</b>    |  | <u>120,893,175</u> | <u>141,120,545</u> |

**Louisiana State Police Retirement System**  
**Schedule of Administrative Expenses**  
**Years Ended June 30, 2004 and 2003**

|                         | <b>2004</b>           | <b>2003</b>           |
|-------------------------|-----------------------|-----------------------|
| Salaries                | \$178,277             | \$163,781             |
| Salary related expenses | 47,824                | 37,449                |
| Accounting and auditing | 44,300                | 44,380                |
| Actuarial fees          | 16,800                | 23,320                |
| Computer consulting     | 4,800                 | 3,990                 |
| Equipment rental        | 3,847                 | 3,647                 |
| Dues and subscriptions  | 2,843                 | 783                   |
| Insurance               | 19,125                | 9,333                 |
| Legal fees              | 18,828                | 11,804                |
| Maintenance and repairs | 153                   | 511                   |
| Medical exams           | 2,558                 |                       |
| Miscellaneous           | 12,432                | 3,804                 |
| Office lease            | 28,591                | 29,133                |
| Postage                 | 12,748                | 13,507                |
| Office supplies         | 8,437                 | 11,213                |
| Telephone               | 2,465                 | 2,348                 |
| Travel and seminars     | 2,167                 | 4,823                 |
| Board fees              | <u>1,275</u>          | <u>2,025</u>          |
|                         | <b><u>416,164</u></b> | <b><u>396,332</u></b> |

Louisiana State Police Retirement System  
Schedule of Board Compensation  
Year Ended June 30, 2004

|                  |              |
|------------------|--------------|
| Robert Cahary    | \$175        |
| Mary M. Charola  | 125          |
| Walter Smith     | 600          |
| Alice Thibodeaux | <u>75</u>    |
|                  | <u>1,275</u> |

These members are receiving per diem payments and reimbursement for mileage in accordance with R.S. 11:182 and PPM48, respectively.



J. CHARLES HANSEN, C.P.A.  
LESLIE C. HANCOCK, B.C.P.A.  
ANDREW J. DEWITT, B.C.P.A.  
CHARLES R. REED, JR., C.P.A.  
DAVID L. BRIDGEMAN, L.L.P.



**CERTIFIED PUBLIC ACCOUNTANTS**

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August 12, 2004

**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 Retirement System  
Baton Rouge, Louisiana

**Members of the Board:**

We have audited the basic financial statements of Plan Net Assets of the

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

a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, and have issued our report (herein dated August 12, 2004). 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 Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana State Police 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,

*Martha Wignath & Carroll, L.L.P.*

**Louisiana State Police Retirement System  
Summary Schedule of Prior Year Findings  
Year Ended June 30, 2004**

No findings were noted in the audit as of and for the year ended June 30, 2003.

Louisiana State Police Retirement System  
Summary Schedule Current Year Findings  
Year Ended June 30, 2004

None.