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LOUISIANA STATE POLICE RETIREMENT SYSTEM

JUNE 30, 1999 AND 1998

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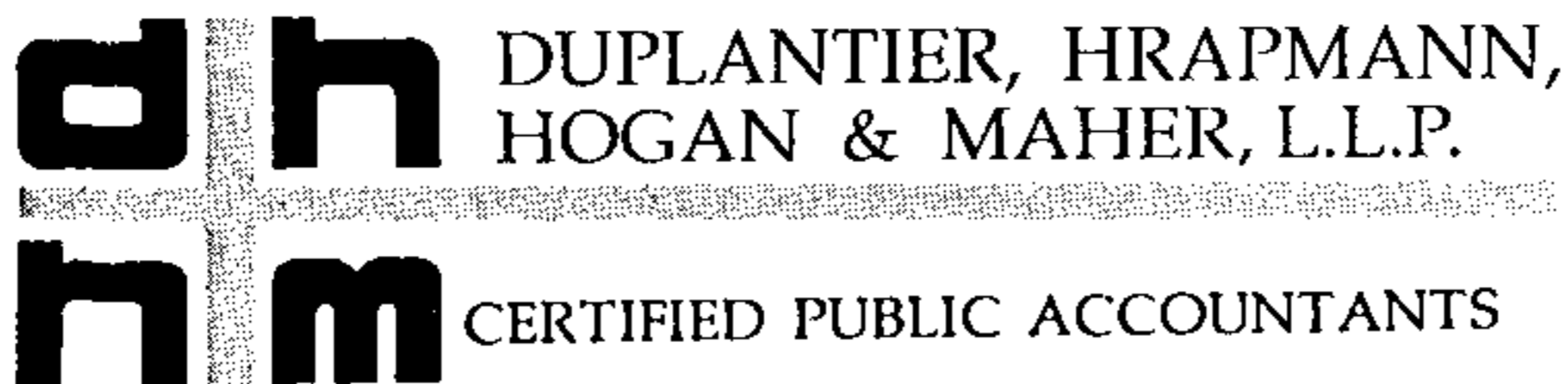
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LOUISIANA STATE POLICE RETIREMENT SYSTEM

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INDEPENDENT AUDITOR'S REPORT

August 10, 1999

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

We have audited the accompanying statement of plan net assets of the Louisiana State Police Retirement System (System), as of June 30, 1999, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Louisiana State Police Retirement System as of June 30, 1998, were audited by other auditors whose report dated September 8, 1998, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana State Police Retirement System as of June 30, 1999, and the results of its operations and changes in net assets for the year then ended in conformity with generally accepted accounting principles.

We have audited the financial statements of the System for the year ended June 30, 1999 and issued our unqualified opinion on such financial statements. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required statistical information and the supplemental schedules on pages 17-22 are presented for the purposes of additional analysis and are not a part of the basic financial statements. Such required statistical information for the year ending June 30, 1999 and supplemental schedules for the year ending June 30, 1999, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The required supplemental schedule on page 23 has not been subjected to procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. We have not examined the financial statements of the System for any period prior to the year ended June 30, 1999. Accordingly, we do not express an opinion or any other form of assurance on the required statistical information relating to any period prior to June 30, 1999. The financial statements of the System prior to June 30, 1999 were audited by other auditors whose reports expressed an unqualified opinion on those statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 10, 1999 on our consideration of Louisiana State Police Retirement System's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants.

Duplantier, Chapman, Hogan & Maher LLP

LOUISIANA STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
ASSETS:		
Cash	\$ 8,738	\$ 36,821
Receivables: (Note 1)		
Motor vehicle	227,666	364,747
Member contributions	202,573	170,400
Investment receivable	1,406,715	1,367,129
Accrued interest and dividends	1,528,461	1,494,132
Other receivables	3,556	1,779
Total receivables	<u>3,368,971</u>	<u>3,398,187</u>
Investments (At fair value): (Notes 1, 6 and 7) (Page 21)		
Short-term investments	8,548,747	6,893,455
U.S. Government obligations	5,260,300	7,746,075
U.S. Government agency obligations	22,802,126	23,037,436
Bonds - domestic	55,098,260	52,844,566
Bonds - international	1,532,515	1,514,403
Stocks - domestic	110,996,600	95,955,823
Stocks - international	22,888,090	20,427,554
Collateral held under securities lending program	8,760,431	--
Total	<u>235,887,069</u>	<u>208,419,312</u>
Properties, at cost (net of accumulated depreciation of \$38,490 and \$27,441) (Notes 1 and 8)	26,735	37,784
Total assets	<u>239,291,513</u>	<u>211,892,104</u>
LIABILITIES:		
Accounts payable	182,212	148,249
Investment payable	1,051,309	1,937,854
Payroll deductions payable	186,091	94,549
Obligations under securities lending program (Notes 6 and 7)	8,760,431	--
Total liabilities	<u>10,180,043</u>	<u>2,180,652</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for the System is presented on page 19)	\$ <u>229,111,470</u>	\$ <u>209,711,452</u>

See accompanying notes.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
ADDITIONS:		
Employer Contributions: (Note 1)		
Appropriations	\$ 19,177,331	\$ 18,498,020
Motor vehicle fees	2,993,650	3,324,164
Mineral settlement fund	--	20,000
Member contributions	2,408,963	2,143,386
Total contributions	<u>24,579,944</u>	<u>23,985,570</u>
Investment income: (Note 1)		
Net appreciation in fair value of investments	5,246,310	21,424,283
Interest and dividends	8,558,713	8,619,208
Securities lending interest	604,563	--
	<u>14,409,586</u>	<u>30,043,491</u>
Less investment expenses:		
Investment manager	908,137	685,713
Securities lending	550,984	--
Foreign taxes withheld	6,459	--
	<u>1,465,580</u>	<u>685,713</u>
Net investment income	<u>12,944,006</u>	<u>29,357,778</u>
OTHER ADDITIONS:		
Transfer in - employer and interest	74,101	--
Transfer in - employee	74,163	224,369
Miscellaneous	4,949	36,440
	<u>153,213</u>	<u>260,809</u>
Total additions	<u>37,677,163</u>	<u>53,604,157</u>
DEDUCTIONS:		
Pensions paid (Note 2)	17,551,193	16,982,409
Refund of employee contributions	50,912	74,852
Administrative expense (Page 22)	278,265	315,641
Depreciation (Notes 1 and 8)	11,049	10,217
Total deductions	<u>17,891,419</u>	<u>17,383,119</u>
NET INCREASE	<u>19,785,744</u>	<u>36,221,038</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year - as previously stated	209,711,452	173,490,414
Prior period adjustment (Note 12)	(385,726)	--
Beginning of year - restated	<u>209,325,726</u>	<u>---</u>
END OF YEAR	<u>\$ 229,111,470</u>	<u>\$ 209,711,452</u>

See accompanying notes.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

The Louisiana State Police Employees Retirement System (System) was established and provided for within Title II of the Louisiana Revised Statutes (LRS). The System was first established by Legislative Act No. 293 of 1938. The System is administered by a board of trustees made up of nine members composed of:

the Treasurer of the State of Louisiana, ex officio;
the Commissioner of Administration, ex officio;
the Superintendent of the Office of State Police;
the President of the Louisiana State Troopers' Association;
the chair of the Senate Finance Committee, ex officio;
the chair of the House Retirement Committee, ex officio;
one active member of the system, elected by the active members;
one retired member of the system, elected by the retired members; and
one member, active or retired, elected by active and retired members.

The Systems'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 System programs and benefits. The board hears appeals from members and issues decisions in such cases. The board also appoints the System's executive director and assistant director.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements are prepared in accordance with the Standards Established by the Governmental Accounting Standards (GASB) as the succession of the National Council on Governmental Accounting (NCGA).

A. Financial Reporting Entity

In June 1991, the Governmental Accounting Standards Board (GASB) issued Statement No. 14, *The Financial Reporting Entity*. The definition of the reporting entity is based primarily on the notion of financial accountability.

In determining financial accountability for legally separate organizations, the System considered whether its officials appoint a voting majority of an organization's governing body and whether they are able to impose their will on that organization or there is a potential for the organization to provide specific financial burdens to, or to impose specific financial burdens on, the System. The System also considered whether there are organizations that are fiscally dependent on it. There are no component units of the System.

The System is a component unit of the State of Louisiana and its financial statements are included in the financial statements of the State of Louisiana.

B. Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Within this context, revenue and expenditure recognition is as follows:

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Basis of Accounting (Continued)

Interest income is recognized in the period it is earned.

Dividends are recognized in the period they are declared.

Employer and employee contributions are recognized in the period in which the employee is compensated for services performed.

State appropriations are recognized in the period the appropriation is made.

Motor vehicle fees are recognized when collected by the Motor Vehicle Office within the Department of Public Safety.

Benefits and refunds paid are recognized when due and payable in accordance with the terms of the plan.

C. Method Used to Value Investments

Investments are reported at fair value. Changes in market value are reported as gains or losses in the year the change occurred. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The System reports securities lent through the securities lending program as assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Liabilities resulting from securities lending transactions are reported as well.

D. Equipment and Fixtures

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

2. PLAN DESCRIPTION:

The Louisiana State Police Retirement System (System) is the administrator of a single employer defined benefit plan and is a component unit of the State of Louisiana included in the state's CAFR as a pension trust fund. The System was established and provided for within Title II of the Louisiana Revised Statutes (LRS). The System was first established by Legislative Act No. 293 of 1938. The System covers 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 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.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

2. PLAN DESCRIPTION: (Continued)

The plan membership as of June 30, 1999 and 1998, is as follows:

	<u>1999</u>	<u>1998</u>
Retirees and beneficiaries currently receiving benefits,	1,013	1,009
Terminated vested members not yet receiving benefits	28	26
Current, active employees (vested & nonvested)	995	947
DROP	55	60
	<u>2,091</u>	<u>2,042</u>

Benefit provisions are authorized under Louisiana Revised Statutes 11:1307-11:1322.

Plan benefits are as follows:

A. Regular Benefit

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

1. 10 years of service credit at age 50. Benefits will be determined by taking 25% of an individual's average salary increased by 1% for each additional 3 months of service credit beyond the 10th year and extending through the end of the 14th year.
2. 15 years of service credit at age 50. Benefits will be determined by taking 45% of an individual's average salary increased by 1% for each additional 4 months of service credit beyond the 15th year and extending through the end of the 19th year.
3. 20 years of service credit and age 50 for those employed on or after September 8, 1978. Benefits will be 60% of the average salary commencing upon retirement if age 50 or upon attaining the age of 50 if less than 50 at the time of retirement. Benefits shall be increased by 1% for each additional 4 months of service beyond the 20th year up to a maximum of 100%.
4. Twenty years of service credit at any age for those employed before September 8, 1978. Benefits will be 60 percent of his average salary, which monthly salary will be increased by 1 percent of average salary for each additional four months of service to his credit beyond the 20th year up to a maximum of 100 percent.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

2. PLAN DESCRIPTION: (Continued)

B. Disability Benefit

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

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

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.

1. The surviving spouse of any eligible member whose death results from injury received in the line of duty shall receive 75% of the current salary of the employee at the time of injury. If there is no surviving spouse, minor children shall receive monthly benefits as follows:
 - a. 4 or more children - 60% of the average salary, equally divided.
 - b. 3 children - 50% of the average salary, equally divided.
 - c. 2 children - 40% of the average salary, equally divided.
 - d. 1 child- 30% of the average salary.
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.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

2. PLAN DESCRIPTION: (Continued)

C. Survivor Benefits (Continued)

- 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 this death.

If there is no surviving spouse, the benefits shall be allocated as stipulated in (c) (1) above.

- 3. For the death of a member whether in the line of duty or not and there is not a surviving spouse or minor children, then dependent parents shall be entitled to a monthly pension of 25% of the average salary.

D. Deferred Benefits

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

E. Deferred Retirement Option Plan (DROP)

Any active member who is eligible to receive a service retirement is eligible to participate in the Deferred Retirement Option Plan (DROP) and defer receipt of benefits. This program was created by Act II of 1990. The participant period shall not exceed three years. During the DROP participation period, an amount equal to what would be received as 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 will receive, at his option: a lump sum payment equal to payments to his DROP account; a true annuity based on his account or any other method approved by the board. Upon completion of the DROP period regardless of employment status, the member's individual DROP account shall earn interest at the rate of one-half of a percentage point below the actuarial rate of return of the System's investment portfolio.

F. Initial Benefit Option

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

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

2. PLAN DESCRIPTION: (Continued)

F. Initial Benefit Option (Continued)

The retiree can receive the "initial benefit" in a lump sum payment or it can be deposited in an interest-bearing account similar to the DROP accounts. The interest earnings and withdrawals will be the same as for DROP accounts. The main difference is the account will be created at retirement with a lump sum instead of accumulated over a DROP participation period. The account will accrue interest from setup.

Under this option, the retiree can elect to receive part of future retirement benefits in a lump sum payment. The lump sum cannot exceed an amount equal to 36 months of the maximum retirement benefit. The retiree may elect to receive a maximum lump sum amount or a smaller amount than the maximum amount.

3. CONTRIBUTIONS, RESERVES AND DESIGNATIONS:

Contributions:

Currently, the law sets the employee contribution rate at 8.0 percent of earned compensation for state police employees. The employer contribution rate is determined each year 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.

Cost of administering the System is financed by employer contributions.

Reserve Funds:

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

The following reserve funds account for activities of the System:

A) Deferred Retirement Option Account:

The Deferred Retirement Option Account consists of the reserves for all members who upon retirement eligibility elect to deposit into this account an amount equal to the member's monthly benefit if he had retired. A member can only participate in the program for three years, and upon termination may receive his 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, 1999 and 1998 is \$11,288,767 and \$9,034,451, respectively. The Deferred Retirement Option Account is fully funded.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

3. CONTRIBUTIONS, RESERVES AND DESIGNATIONS: (Continued)

Reserve Funds: (Continued)

B) Initial Benefit Obligation Account

The Initial Benefit Obligation Account consists of reserves for all members who upon eligibility elect to deposit into this account a lump sum in the amount of no more than 36 months of his monthly retirement benefit. The retiree can receive the amount as a lump sum, or in any other manner. If the retiree elects not to withdraw his total money on deposit, his deposit will earn interest. The Initial Benefit Obligation Account as of June 30, 1999 and 1998 is \$78,207 and \$-0-, respectively. The Initial Benefit Obligation Account is fully funded.

C) Annuity Savings Fund:

The Annuity Savings Fund is credited with contributions made by members of the System. When a member terminates his service, or upon his death before qualifying for a benefit, the refund of his contributions is made from this reserve. If a member dies and there is a survivor who is eligible for a benefit, the amount of the member's accumulated contributions is transferred from the Annuity Savings to the Annuity Reserve. When a member retires, the amount of his accumulated contributions is transferred to Annuity Reserve to provide part of the benefits. The Annuity Savings as of June 30, 1999 and 1998 is \$15,682,676 and \$13,421,021, respectively. The Annuity Savings Fund is fully funded.

D) Pension Accumulation:

The Pension Accumulation consists of contributions paid by employers, interest earned on investments and any other income not covered by other accounts. This 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, 1999 and 1998 is \$99,492,969 and \$80,006,299, respectively. The Pension Accumulation Fund includes the assets from the Texaco Settlement Fund in the amount of \$34,253,748 for the year ended June 30, 1999 and \$30,839,334 for the year ending June 30, 1998. As a result, the Pension Accumulation Fund is 34% funded by the assets from the Texaco Settlement Funds.

E) Annuity Reserve:

The Annuity Reserve consists of the reserves for all pensions, excluding cost-of-living increases, granted to members 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, 1999 and 1998 is \$213,756,177 and \$210,684,661, respectively. The Annuity Reserve is 78% funded.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

3. CONTRIBUTIONS, RESERVES AND DESIGNATIONS: (Continued)

Designations:

Use of the term "designation" by the System indicates that a portion of the fund balance has been set aside by the System to reflect plans or commitments of the System's resources. The nature and purpose of the designation is explained below:

Designated Fund:

- A) In accordance with the interpretation of the Division of Administration and the Public Retirement Systems' Actuarial Committee, the System has designated the assets received from the Texaco Settlement in a side-fund and removed from the assets for funding purposes only. The side-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 Designated Fund account balance as of June 30, 1999 and 1998 is \$34,253,748 and \$30,839,334, respectively.

4. ACTUARIAL COST METHOD:

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

5. REQUIRED SUPPLEMENTAL SCHEDULE INFORMATION:

Information in the required supplemental schedules on pages 18-20 is designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits.

Information in the required supplemental schedule on page 23 is designed to provide information about the year 2000 issue.

6. DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS:

Following are the components of the System's deposits, cash equivalents and investments at June 30, 1999 and 1998:

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

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

	<u>1999</u>	<u>1998</u>
Deposits (bank balance)	\$ 575,935	\$ 565,976
Cash equivalents	8,548,747	6,893,455
Investments	<u>227,338,322</u>	<u>201,525,857</u>
	<u>\$236,463,004</u>	<u>\$208,985,288</u>

Deposits:

The System's bank deposits were entirely covered by federal depository insurance and by securities pledged. The pledged securities are held in joint custody at the Federal Reserve Bank.

Cash Equivalents:

Cash equivalents consist of short term government pooled investments. The funds are managed and held by a separate money manager, and are in the name of the System's custodian.

Investments:

Statutes authorize the System to invest under the Prudent-Man Rule. The Prudent-Man Rule as used herein means that in investing the governing authorities of the 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 System shall not invest more than fifty-five percent of the total portfolio in common stock.

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

	<u>1999</u> <u>MARKET VALUE</u>	<u>1998</u> <u>MARKET VALUE</u>	<u>CATEGORY</u>
U.S. Government and Government agency obligations	\$ 24,445,461	\$ 30,783,511	1
Bonds - domestic	54,065,114	52,844,566	1
Bonds - international	1,532,515	1,514,403	1
Common stocks - domestic	107,899,552	94,830,260	1

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

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

Investments: (Continued)

	<u>1999</u> <u>MARKET VALUE</u>	<u>1998</u> <u>MARKET VALUE</u>	<u>CATEGORY</u>
Common stocks - international	\$ 21,621,365	\$ 20,427,554	1
Preferred stocks - domestic	--	1,125,563	1
Investments held by brokers - dealers in which collateral may be reinvested:			
U.S. Government and Government Agency obligations	3,073,823	--	N/A
Bonds - domestic	1,033,146	--	N/A
Common stocks - domestic	3,097,048	--	N/A
Common stocks - foreign	1,266,725	--	N/A
Investments held by brokers - dealers in which collateral may not be reinvested:			
U.S. Government and Government Agency obligations	543,142	--	1
Collateral held under securities lending program:			
Short Term Master Notes	5,970,905	--	2
Tri Party Repurchase Agreement	<u>2,789,526</u>	--	2
	<u>\$227,338,322</u>	<u>\$201,525,857</u>	

7. SECURITY LENDING AGREEMENTS:

State statutes and board of trustee policies authorize the System to invest under the Prudent-Man Rule. Under the Prudent-Man Rule, the System is allowed to lend its securities to broker - dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System has entered into a contract with a company which acts as their third-party securities lending agent. The lending agent has access to the System's lendable portfolio or available assets. The agent lends the available assets such as U.S. and non-U.S. equities, corporate bonds and U.S. and non-U.S. government securities. The lending agent continually reviews credit worthiness of potential borrowers through adequate analysis of all material provided to them. All loans are fully collateralized with cash, government securities, or irrevocable letters of credit.

Collateralization of loans will be 102% of the market value of the loaned securities plus accrued interest. As a result of the required collateralization percentage, the System has no credit risk. The lending agent and the System enter into contracts with all approved borrowers. In the case of any loans collateralized by cash, the lending agent will invest the cash collateral (in the name of the System) in approved investments outlined in the contract between the agent and the System such as commercial paper, selected money market mutual funds, certificates of deposit, and repurchase agreements including tri-party. For tri-party repurchase agreements, party to such agreements must be an approved borrower.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

7. SECURITY LENDING AGREEMENTS: (Continued)

The collateralization percentage of tri-party agreements will vary depending upon the collateral received from the borrower. Acceptable collateral from approved borrowers for tri-party repurchase agreements is all direct U.S. Treasury obligations, mortgage and asset-backed securities rated AA or higher, commercial paper, and other investments stipulated in lender agent contract.

The System has the following securities on loan:

	<u>June 30, 1999</u>	
	<u>Par/Cost (equities)</u>	<u>Market</u>
U.S. Government securities (notes and bonds)	\$3,610,000	\$3,616,965
Corporate bonds	1,075,000	1,033,146
Marketable securities - (equities)	<u>4,162,812</u>	<u>4,363,773</u>
Totals	<u>\$8,847,812</u>	<u>\$9,013,884</u>

Securities on loan at June 30, 1999 for which cash collateral was received are presented as unclassified under footnote 6. Securities on loan at June 30, 1999 for which noncash collateral was received are classified under footnote 6. The contracts with approved borrowers requires them to indemnify the System if they are in default (and if the collateral is inadequate to replace the securities lent). The System cannot pledge or sell collateral securities received unless the borrower defaults.

The term to maturity of the securities loaned is matched with the term to maturity of the investment of the cash collateral. Such matching existed at June 30, 1999.

8. EQUIPMENT AND FIXTURES:

The following is a summary of equipment and fixtures at cost less accumulated depreciation:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Office equipment & furniture	\$45,975	\$ --	\$ --	\$45,975
Automobile	19,250	--	--	19,250
Less accumulated depreciation	<u>(27,441)</u>	<u>(11,049)</u>	--	<u>(38,490)</u>
	<u>\$37,784</u>	<u>\$(11,049)</u>	<u>\$ --</u>	<u>\$26,735</u>

Depreciation expense for the year ended June 30, 1999 and 1998 is \$11,049 and \$10,217, respectively.

9. COMPENSATION OF BOARD MEMBERS:

No compensation is paid by the System to its board members.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998

10. OPERATING LEASE:

The System entered into an operating lease for office space beginning January 1, 1996. The term is for five years at \$2,366 per month. Lease expenses for the years ended June 30, 1999 and June 30, 1998 were \$28,391 and \$28,391, respectively.

The minimum lease payments for the remaining life of the lease are as follows:

2000	\$28,391
2001	<u>14,195</u>
	<u>\$42,586</u>

11. RECLASSIFICATION:

Certain amounts in the year ending June 30, 1998 have been reclassified to conform with the June 30, 1999 presentation.

12. PRIOR PERIOD ADJUSTMENT:

In the prior period, the System reported pending purchases and sales of investments incorrectly. As a result, net assets were restated as of July 1, 1998. The effect of the restatement was to decrease investments in the amount of \$385,726, and decrease net assets available for benefits in the amount of \$385,726.

13. ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 SUPPLEMENTARY INFORMATION
 DETAIL STATEMENT OF CHANGES IN RESERVE BALANCES
 YEAR ENDED JUNE 30, 1999

	ANNUITY SAVINGS	ANNUITY RESERVE	DEFERRED RETIREMENT OPTION PLAN	INITIAL BENEFIT OBLIGATION	PENSION ACCUMULATION	ACTUARIAL ACCRUED LIABILITY	TOTAL
BALANCE - BEGINNING	\$ 13,421,021	\$ 210,684,661	\$ 9,034,451	--	\$ 80,006,299	\$ (103,434,980)	\$ 209,711,452
Prior period adjustment	--	--	--	--	--	(385,726)	(385,726)
ADJUSTED BALANCE - BEGINNING	13,421,021	210,684,661	9,034,451	--	80,006,299	(103,820,706)	209,325,726
REVENUES AND TRANSFERS:							
Employee contributions	2,483,126	--	--	--	--	--	2,483,126
Employer contributions	--	--	--	--	22,170,981	--	22,170,981
Net investment income	--	--	--	--	12,944,006	--	12,944,006
Net miscellaneous income	--	--	--	--	4,949	--	4,949
Transfer in	--	--	--	--	74,101	--	74,101
Transfer from Annuity Savings	--	170,559	--	--	--	--	170,559
Pensions transferred from	--	--	2,455,704	78,207	--	--	2,533,911
Annuity Reserve	--	--	--	--	--	--	2,533,911
Actuarial transfer	--	22,784,673	--	--	--	--	22,784,673
	2,483,126	22,955,232	2,455,704	78,207	35,194,037	--	63,166,306
EXPENDITURES AND TRANSFERS:							
Pensions paid	--	17,349,805	201,388	--	--	--	17,551,193
Refunds to members	50,912	--	--	--	--	--	50,912
Administrative expenses	--	--	--	--	278,265	--	278,265
Depreciation	--	--	--	--	11,049	--	11,049
Transfer to Annuity Reserve	170,559	--	--	--	--	--	170,559
Pensions transferred to	--	78,207	--	--	--	--	78,207
Individual Benefit Obligation	--	2,455,704	--	--	--	--	2,455,704
Pensions transferred to DROP	--	--	--	--	15,418,053	7,366,620	22,784,673
Actuarial transfer	--	--	--	--	--	--	--
	221,471	19,883,716	201,388	--	15,707,367	7,366,620	43,380,562
NET INCREASE/(DECREASE)	2,261,655	3,071,516	2,254,316	78,207	19,486,670	(7,366,620)	19,785,744
BALANCE - ENDING	\$ 15,682,676	\$ 213,756,177	\$ 11,288,767	\$ 78,207	\$ 99,492,969	\$ (111,187,326)	\$ 229,111,470

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS AND OTHER SOURCES
JUNE 30, 1994 THROUGH 1999
 (DOLLAR AMOUNTS IN THOUSANDS)

FISCAL DATE	ACTUARIAL REQUIRED CONTRIBUTION EMPLOYER	ACTUARIAL REQUIRED CONTRIBUTION OTHER SOURCES*	PERCENT CONTRIBUTED EMPLOYER	PERCENT CONTRIBUTED OTHER SOURCES*
1994	\$ 16,355,074	\$ 3,241,608	123.7 %	100.0 %
1995	14,787,115	3,558,707	135.2	100.0
1996	15,758,428	2,713,994	117.6	100.0
1997	15,380,773	2,481,581	116.2	100.0
1998	15,277,805	3,324,164	121.1	100.0
1999	15,548,332	2,993,650	123.3	100.0

* Other sources of actuarial required contributions does not include Texaco settlement funds.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 JUNE 30, 1994 THROUGH 1999
 (DOLLAR AMOUNTS IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE (b)	UNFUNDED AAL (UAAL)* (b-a)	FUNDED RATIO (a/b)	ANNUAL COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL (b-a/c)
1994	\$ 76,131	\$ 246,813	\$ 170,682	30.8 %	\$ 18,215	\$ 937.0 %
1995	92,991	268,588	175,597	34.6	22,299	787.5
1996	113,114	273,533	160,419	41.3	24,570	652.9
1997	155,308	293,295	137,987	53.0	27,780	496.7
1998	188,904	313,146	124,242	60.3	29,642	419.1
1999	216,954	340,299	123,345	63.8	35,312	349.3

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

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 NOTES TO THE SCHEDULE OF CONTRIBUTIONS AND
 SCHEDULE OF FUNDING PROGRESS
JUNE 30, 1999

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 accrual valuation dated June 30, 1999 follows:

Valuation date	June 30, 1999
Actuarial cost method	Entry Age
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	14 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.
<u>Actuarial assumptions:</u>	
Investment rate of return	7.5%
Projected salary increases	The rates of annual salary growth were developed from experience studies performed by the System. The salary growth rate was calculated to be approximately 4%.
Cost of living	The liability for cost of living raises already granted is included in the retirees reserve. 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.
Change in actuarial valuation:	The method of valuing bonds changed from using amortized cost value to using market value adjusted for a four year weighted average of the unrealized gain or loss in the value of assets. This change in asset valuation method resulted in an increase in the actuarial value of assets in the amount of \$1,489,675.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 1999

	JUNE 30, 1999		
	<u>PAR VALUE</u>	<u>COST</u>	<u>MARKET VALUE</u>
BONDS:			
U.S. Treasury Notes and Bonds	\$ 5,150,000	\$ 5,221,297	\$ 5,260,300
Federal Home Loan Mortgage Corporation	6,592,065	6,487,380	6,422,504
Federal National Mortgage Association	12,169,068	11,792,331	11,774,306
Government National Mortgage Association	4,575,454	4,693,273	4,605,316
Corporate bonds	56,155,574	56,842,644	55,098,260
Foreign bonds	1,700,000	1,563,598	1,532,515
TOTAL BONDS	\$ 86,342,161	\$ 86,600,523	\$ 84,693,201
STOCKS:			
Domestic stocks		\$ 66,478,813	\$ 110,996,600
Foreign stocks		17,872,878	22,888,090
TOTAL STOCKS		\$ 84,351,691	\$ 133,884,690

LOUISIANA STATE POLICE RETIREMENT SYSTEM
SUPPLEMENTARY INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 1999

Salaries	\$	133,052
Salary related expenses		22,349
Accounting and auditing		12,125
Actuarial fees		10,350
Dues and subscriptions		1,493
Insurance		2,445
Legal fees		24,736
Maintenance and repairs		775
Medical examinations		485
Miscellaneous		8,628
Office lease		28,391
Postage		5,260
Office supplies		3,578
Telephone		2,196
Travel and seminars		<u>22,402</u>
 TOTAL ADMINISTRATIVE EXPENSES	\$	<u><u>278,265</u></u>

LOUISIANA STATE POLICE RETIREMENT SYSTEM
YEAR 2000 ISSUE (UNAUDITED)
JUNE 30, 1999 AND 1998

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the System's operations as early as fiscal year 1999.

Fund information necessary for the performance of actuarial valuations and the determination of contributions is maintained in the accounting and computer systems of the Louisiana State Police Retirement System.

The System has completed a process of identifying computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the System's operations. The System is in the implementation stage in that computer software and hardware are believed to be year 200 compliant.

However, because of the unprecedented nature of the year 2000 issue, its effect and the success of related efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Fund is or will be year 2000 ready, or that parties with whom the System does business will be year 2000 ready.

LOUISIANA STATE POLICE RETIREMENT SYSTEM
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED JUNE 30, 1999

August 10, 1999

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

We have audited the financial statements of the plan net assets of the Louisiana State Police Retirement System, as of and for the year ended June 30, 1999, and have issued our report thereon dated August 10, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the System's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are noted below:

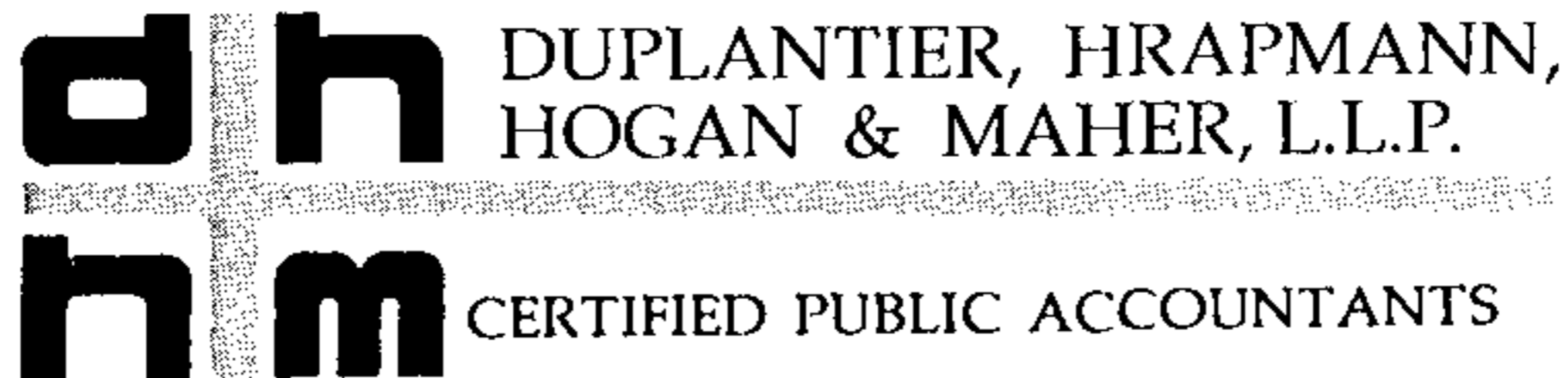
The System is not reconciling active members' balances (annuity savings balances), Deferred Retirement Option Plan balances (DROP) and Initial Benefit Option Plan balances to the general ledger. The general ledger does not separate the equity accounts in order to reconcile these accounts. The activity within the active members balances, DROP balances and Initial Benefit Option should be reconciled with the activity that is reported in the general ledger. In addition, detail ledgers consisting of the ending balances of annuity savings, DROP and Initial Benefit Option Plan should be reconciled to the general ledger at year end. We recommend the System separately report the accounts (annuity savings, DROP and Initial Benefit Option) on the general ledger. In addition, we recommend that the System develop a procedure to reconcile the activity and ending balances to the general ledger on a timely basis.

The System does not have procedures in place to independently review for completeness interest and dividends received from investments. Procedures should be in place to determine that all investment income is properly received and recorded. We recommend the System develop procedures to perform this independent review.

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

This report is intended for the use of the Board of Trustees, management, 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.

Duplantier, Chapman, Hogan & Maher LLP



DUPLANTIER, HRAPMANN,
HOGAN & MAHER, L.L.P.

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SOCIETY OF I.A. C.P.A.'S

August 10, 1999

Legislative Auditor
Engagement Processing
Post Office Box 94397
Baton Rouge, Louisiana 70804

SCHEDULES AND DATA COLLECTION FORM

SECTION 1: SUMMARY OF AUDITOR'S REPORTS

A. FINANCIAL STATEMENT AUDIT OPINION:

We have audited the financial statements of Louisiana State Police Retirement System as of and for the year ended June 30, 1999 and have issued our report thereon dated August 10, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit as of June 30, 1999 resulted in an unqualified opinion.

B. REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL STATEMENTS:

Internal Control:

Material weakness - None noted.

Reportable conditions - See current year findings 99-01 and 99-02 below.

Compliance:

Noncompliance material to financial statements - None noted

SECTION 2: FINANCIAL STATEMENT FINDINGS

A. CURRENT YEAR FINDINGS:

99-01 - Reconciliation of Equity Accounts:

The System is not reconciling active members' balances (annuity savings balances), Deferred Retirement Option Plan balances (DROP) and Initial Benefit Option Plan balances to the general ledger. The general ledger does not separate the equity accounts in order to reconcile these accounts. The activity within the active members balances, DROP balances and Initial Benefit Option should be reconciled with the activity that is

A. CURRENT YEAR FINDINGS: (Continued)

99-01 - Reconciliation of Equity Accounts: (Continued)

reported in the general ledger. In addition, detail ledgers consisting of the ending balances of annuity savings, DROP and Initial Benefit Option Plan should be reconciled to the general ledger at year end. We recommend the System separately report the accounts (annuity savings, DROP, and Initial Benefit Option) on the general ledger. In addition, we recommend that the System develop a procedure to reconcile the activity and ending balances to the general ledger on a timely basis.

99-02 - Interest & Dividend Reserves:

The System does not have procedures in place to independently review interest and dividends received from investments. Procedures should be in place to determine that all investment income is received and recorded. We recommend the System develop procedures to perform this independent review.

B. PRIOR YEAR FINDINGS:

None