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**Louisiana State Police Retirement System
Baton Rouge, Louisiana
June 30, 1996**

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

Release Date **OCT 23 1996**

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WARREN C. BER, C.P.A.
RETIRED

September 20, 1996

Independent Auditor's Report

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

Members of the Board:

We have audited the accompanying statement 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, 1996, and the related statement of changes in Plan net assets for the year then ended. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards and 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, 1996, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the financial statements, the Louisiana State Police Retirement System adopted Governmental Accounting Standards Board, ("GASB") Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The accompanying supplemental information as of and for the year ended June 30, 1996 is presented for the purpose of additional analysis and is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated September 20, 1996, on our consideration of the Louisiana State Police Retirement System's internal control structure and a report dated September 20, 1996, on its compliance with laws and regulations.

Yours truly,

Hawthorn, Weymouth & Carroll, LLP

Louisiana State Police Retirement System
Statement of Plan Net Assets
June 30, 1996

Assets	
Cash and cash equivalents	<u>\$9,997,949</u>
Receivables	
Employer contributions	217,926
Employee contributions	145,561
Accounts receivable investment trades	188,854
Interest and dividends	875,980
Other receivables	<u>2,991</u>
<u>Total receivables</u>	<u>1,431,312</u>
Investments, at fair value	
U. S. Government obligations	34,882,796
Corporate bonds	8,112,750
Common stocks (domestic and international)	60,253,785
Preferred stock	234,725
Mortgage backed securities	4,140,158
Mutual funds - equity	<u>5,710,857</u>
<u>Total investments</u>	<u>113,335,071</u>
Furniture, fixtures and equipment, at cost, net of accumulated depreciation of \$34,063	<u>28,506</u>
<u>Total assets</u>	<u>124,792,838</u>
Liabilities	
Accounts payable investment trades	703,586
Payroll deductions payable	95,576
Other payables	<u>6,517</u>
<u>Total liabilities</u>	<u>805,679</u>
Net Assets Held in Trust For Pension Benefits	
(A schedule of funding progress is presented on page 18)	<u>123,987,159</u>

**Louisiana State Police Retirement System
Statement of Changes in Plan Assets
Year Ended June 30, 1996**

Additions	
Contributions	
Employer	\$22,409,526
Employee	<u>2,057,704</u>
<u>Total contributions</u>	<u>24,467,230</u>
Investment Income	
Net appreciation (depreciation) in fair value of investments	9,707,657
Interest and dividends	4,906,975
Gain on sale of investments	2,435,745
Less investment expense	<u>(373,153)</u>
<u>Net investment income</u>	<u>16,677,224</u>
<u>Total additions</u>	<u>41,144,454</u>
Deductions	
Retirement benefits	15,206,850
Refunds of employee contributions	78,274
Administrative expense	<u>200,659</u>
<u>Total deductions</u>	<u>15,485,783</u>
Net Increase	25,658,671
Net Assets Held in Trust For Pension Benefits	
Beginning of Year	<u>98,328,488</u>
End of Year	<u>123,987,159</u>

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 1-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 Louisiana State Police Retirement System adopted Governmental Accounting Standards Board (GASB), Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for the fiscal year ended June 30, 1996.

The plan membership as of June 30, 1996, is as follows:

	Number
Retirees and beneficiaries currently receiving benefits, and deferred retirement plan participants	1,064
Terminated vested members not yet receiving benefits	12
Current, active employees:	
Vested	313
Nonvested	<u>505</u>
	<u><u>1,894</u></u>

Plan benefits are as follows:

- (a) Regular Retirement - 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.

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 1-Description of Plan (Continued)

(a) Regular Retirement (Continued)

- (4) 20 years of service credit 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%.

Compulsory retirement age is 65.

(b) Disability Retirement

Eligibility

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

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

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

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

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 1-Description of Plan (Continued)

(d) **Death Benefits**

(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 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.

If no surviving spouse or minor children, then dependent parents shall be entitled to a monthly pension of 25% of the average salary.

(2) Death of employee not in performance of duty - the surviving spouse 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.

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 1-Description of Plan (Continued)

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

- (e) **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.
- (f) Per Article 10, Section 29(b) of the Constitution of the State of Louisiana, the State of Louisiana guarantees benefit payments to the retirees of a state retirement system or his beneficiary upon his death.
- (g). **DROP Program**

Any active member who is eligible to receive a service retirement allowance 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 a monthly retirement benefit is accumulated in an individual account. The participant continues to receive a regular earned salary while employed. Upon termination of employment at the end of the DROP participation period, a participant will receive, at his option; a lump sum payment equal to accrued payments to his DROP account; a true annuity based on his account or any other method approved by the board. One year subsequent to the termination of employment, the member's individual DROP account shall earn interest at the rate of two percentage points below the rate of return of the system's investment portfolio.

Note 2-Summary of Significant Accounting Policies

Basis of Accounting

A. Reporting Entity

Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Oversight responsibility by the System is determined on the basis of the accountability for fiscal matters under the control of the board of directors.

Because the operations of the System are funded by the State of Louisiana, the System was determined to be a component unit of the State of Louisiana. The accompanying financial statements present information only on the System and do not present information on the general government services provided by the State of Louisiana, or the other governmental units that comprise the State of Louisiana's entity.

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 2-Summary of Significant Accounting Policies (Continued)

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 either 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 determined whether there are organizations that are fiscally dependent on it. There are no component units of the System.

The System uses the accrual basis of accounting. Within this context, revenue and expenditure recognition is as follows:

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 that the employee is compensated for services performed.

Gains and losses on security transactions are recognized in the period of the sale or maturity of the investments.

Benefits and refunds paid are recognized in the period they are allocated.

As required by GASB 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans, investments are reported at fair value. Fair value is determined by the last reported sales price.

Besides investments in the U. S. Government and U. S. Government Obligations, the system has not had investments representing more than five percent of the net assets available for benefits.

Furniture, fixtures and equipment 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.

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 2-Summary of Significant Accounting Policies (Continued)

B. 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.

C. Restatement

In November 1994, GASB issued Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. This Statement established financial reporting standards for defined-benefit pension plans. GASB encouraged early application of the Statement, which the Plan has elected to do. The Statement requires the Plan to restate the financial statements of all periods presented. All prior years' effects resulting from this Statement are reported as a restatement of the "Net assets held in trust for pension benefits-beginning of year" for the earliest period restated. The net assets held in trust for pension benefits-beginning of year for fiscal year 1996, which was \$91,337,408, has been restated as \$98,328,488 in order to reflect application of GASB Statement No. 25.

Note 3-Contributions

Currently, the law sets the employee contribution rate at 8.0 percent of earned compensation for state police employees. The agency pays the employer contribution rate determined each year based on an actuarial formula set by state law. The employer contribution includes an amount designed to pay a portion of State Police Retirements' unfunded accrued liability. The unfunded accrued liability is scheduled to be paid in full by the year 2000. Cost of administering the System is financed by general assets and the System.

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

Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996

Note 4-Cash, Cash Equivalents and Investments

In accordance with LRS 42:717, Louisiana's pension systems are to invest in accordance with the prudent-man rule. As used in this statute, the rule means that the systems "...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, no governing authority of any system shall invest more than fifty-five percent of the total portfolio in equities.

(1) Deposit Balances

	<u>Cash</u>	<u>Investment in U. S. Treasury Money Market Fund</u>	<u>Total</u>
Carrying Amount on Balance Sheet	<u>\$49,592</u>	<u>\$9,948,357</u>	<u>\$9,997,949</u>
Bank Balances:			
a) Insured or collateralized with securities held by the entity or its agent <u>in the entity's name</u>	\$540,000	\$9,948,357	\$10,488,357
b) Collateralized with securities held by pledging financial institution's trust department or agent <u>in the entity's name</u>			
c) Uncollateralized, including any securities held for the entity but <u>not in the entity's name</u>	<u>690,035</u>	_____	<u>690,035</u>
<u>Total bank balance</u>	<u>1,230,035</u>	<u>9,948,357</u>	<u>11,178,392</u>

All of the amounts in (c) above were uncollateralized securities as of June 30, 1996.

**Louisiana State Police Retirement System
Notes to Financial Statements
June 30, 1996**

Note 4-Cash, Cash Equivalents and Investments (Continued)

(2) Investments

A schedule of investments is shown below which classifies the investments according to the level of risk to the entity. Definitions of the risk categories are as follows:

Category 1 Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name.

Category 2 Uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 Unsecured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Type of Investment	<u>Investments as of June 30, 1996</u>			Total Carrying Amount at <u>Fair Value</u>
	<u>Category of Risk</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	
U. S. Government obligations	\$34,882,796			\$34,882,796
Corporate bonds	8,112,750			8,112,750
Common stocks	60,253,785			60,253,785
Preferred stock	234,725			234,725
Mutual funds - equity	5,710,857			5,710,857
Mortgage backed securities	<u>4,140,158</u>			<u>4,140,158</u>
	<u>113,335,071</u>			<u>113,335,071</u>

Note 5-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, 1996

Note 6-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 expense for the year ended June 30, 1996 is \$14,195. The minimum lease payments for the next five years are as follows:

1997	\$28,391
1998	28,391
1999	28,391
2000	<u>14,195</u>
	<u>99,368</u>

Note 7-Required Supplemental Information

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

Supplemental Information

Louisiana State Police Retirement System
Supplemental Information
Schedule of Employer Contributions
(Dollar Amounts in Thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1991	\$18,851	118.6%
1992	17,419	116.4%
1993	20,317	115.7%
1994	19,453	120.7%
1995	18,650	126.3%
1996	19,459	113.2%

**Louisiana State Police Retirement System
Schedule of Funding Progress**

June 30

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded)		Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
			AAL (UAAL) (b-a)				
1991	\$31,332	\$207,812	\$176,480		15.1%	\$19,323	913.3%
1992	43,516	230,809	187,293		18.9%	19,572	956.9%
1993	58,251	241,669	183,418		24.1%	18,602	953.8%
1994	73,071	246,813	173,742		29.6%	18,215	953.8%
1995	88,533	268,588	180,055		33.0%	22,299	807.5%
1996	106,987	273,533	166,546		39.1%	24,570	677.8%

**Louisiana State Police Retirement System
Notes to the Schedules of Trend Data**

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, 1996 follows:

Valuation date	June 30, 1996
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Remaining amortization period	33 Years
Asset valuation method	Bonds are valued at amortized cost. For the Plan Year ending June 30, 1996 equities are valued at a four year weighted average. The computation of the actuarial value of assets is the sum of the bonds at amortized cost, less a weighted average of unrealized losses or (gains) in the market value of equities, plus the market value of equities. This value is determined in accordance with Reg.1.412(c)(2)-1-(6) & (7) of the Internal Revenue Service Code and is subject to the Corridor Limits defined therein.

Actuarial assumptions:

Investment rate of return	7.5%
Projected salary increases	4% - 6.7%
Cost of living adjustments	None

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WARREN C. BER, C.P.A.
RETIRED

September 20, 1996

Report on the Internal Control Structure Based on an Audit of the Component Unit Financial Statements in Accordance With Government Auditing Standards

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

Members of the Board:

We have audited the component unit financial statements of the Louisiana State Police Retirement System as of and for the year ended June 30, 1996, and have issued our report thereon dated September 20, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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 component unit financial statements are free of material misstatement.

In planning and performing our audit of the component unit financial statements of the Louisiana State Police Retirement System for the year ended June 30, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of the Louisiana State Police Retirement System is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the component unit financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Louisiana State Police Retirement System, for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk 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 structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities 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 structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management, and the Louisiana Division of Administration and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

Hawthorn, Weymouth & Carroll, LLP

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WARREN C. BER, C.P.A.
RETIRED

September 20, 1996

Report on Compliance Based on an Audit of the Component Unit Financial Statements Performed in Accordance With Government Auditing Standards

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

Members of the Board:

We have audited the component unit financial statements of the Louisiana State Police Retirement System as of and for the year ended June 30, 1996, and have issued our report thereon dated September 20, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations and contracts applicable to the Louisiana State Police Retirement System is the responsibility of the Louisiana State Police Retirement System's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Louisiana State Police Retirement System's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instance of noncompliance that is required to be reported herein under Government Auditing Standards.

As indicated in Note 5 to the financial statements, the System has bank deposit balances which are uncollateralized. Louisiana state law requires that the System have adequate collateral.

We considered this instance of noncompliance in forming our opinion on whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated September 20, 1996, on those financial statements.

This report is intended for the information of management, and the Louisiana Division of Administration and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

Hutchins, Wymouth & Carroll, LLP