**Louisiana State Police Retirement System**
**Baton Rouge, Louisiana**
**June 30, 1997**

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RETIRED
ROBERT J. ZERNOTT, C.P.A.
RETIRED


September 20, 1997

**Independent Auditor's Report**

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

Members of the Board:

We have audited the accompanying component unit statements of Plan net assets of the

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

as of June 30, 1997 and June 30, 1996, and the related statement of changes in Plan net assets for the years 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 audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit 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, 1997 and June 30, 1996, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 20, 1997 on our consideration of the 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.

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements taken as a whole. The Required Supplementary Information and the Supporting Schedules which are also the responsibility of the System's management, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the 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,

Hawthorn, Waymouth + Carroll, LLP

## Louisiana State Police Retirement System
## Statement of Plan Net Assets
## June 30, 1997 and June 30, 1996

| | 1997 | 1996 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $25,089,827 | $9,997,949 |
| Receivables | | |
| Employer contributions | 346,307 | 217,926 |
| Employee contributions | 161,148 | 145,561 |
| Accounts receivable investment trades | 96,152 | 188,854 |
| Interest and dividends | 1,139,662 | 875,980 |
| Other receivables | 3,401 | 2,991 |
| Total receivables | 1,746,670 | 1,431,312 |
| Investments, at fair value | | |
| U.S. Government obligations | 7,576,048 | 21,029,462 |
| U.S. Government agency obligations | 22,709,517 | 17,993,492 |
| Common stocks - domestic | 69,386,631 | 60,488,510 |
| Common stocks - foreign | 13,449,133 | 5,710,857 |
| Bonds - domestic | 33,301,072 | 8,112,750 |
| Bonds - foreign | 626,938 | |
| Total investments | 147,049,339 | 113,335,071 |
| Furniture, fixtures and equipment, at cost, net of accumulated depreciation of $37,239 and $34,063 | 25,215 | 28,506 |
| Total assets | 173,911,051 | 124,792,838 |
| **Liabilities** | | |
| Accounts payable investment trades | 118,750 | 703,586 |
| Payroll deductions payable | 191,688 | 95,576 |
| Other payables | 110,199 | 6,517 |
| Total liabilities | 420,637 | 805,679 |
| **Net Assets Held in Trust For Pension Benefits** | 173,490,414 | 123,987,159 |

(A schedule of funding progress is presented on page 17)

# Louisiana State Police Retirement System
## Statement of Changes in Plan Assets
### Years Ended June 30, 1997 and June 30, 1996

| | 1997 | 1996 |
|---|---|---|
| **Additions** | | |
| Contributions | | |
| Employer | $39,705,704 | $22,409,526 |
| Employee | 2,054,541 | 2,057,704 |
| Total contributions | 41,760,245 | 24,467,230 |
| Investment Income | | |
| Net appreciation (depreciation) in fair value of investments | 14,935,376 | 9,707,657 |
| Interest and dividends | 6,384,457 | 4,906,975 |
| Gain on sale of investments | 3,746,448 | 2,435,745 |
| Less investment expense | (534,523) | (373,153) |
| Net investment income | 24,531,758 | 16,677,224 |
| Total additions | 66,292,003 | 41,144,454 |
| **Deductions** | | |
| Retirement benefits | 16,478,217 | 15,206,850 |
| Refunds of employee contributions | 84,997 | 78,274 |
| Administrative expense | 225,534 | 200,659 |
| Total deductions | 16,788,748 | 15,485,783 |
| **Net Increase** | 49,503,255 | 25,658,671 |
| **Net Assets Held in Trust For Pension Benefits** | | |
| **Beginning of Year** | 123,987,159 | 98,328,488 |
| **End of Year** | 173,490,414 | 123,987,159 |

## 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, 1997, is as follows:

| | Number |
|---|---|
| Retirees and beneficiaries currently receiving benefits, and deferred retirement plan participants | 1,059 |
| Terminated vested members not yet receiving benefits | 26 |
| Current, active employees: | |
| Vested | 363 |
| Nonvested | 536 |
| | 1,984 |

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.

(3) 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.

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

(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.

(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.

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

(d) Death Benefits (Continued)

(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, 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. Upon completion of 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 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.

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

Basis of Accounting (Continued)

A. Reporting Entity (Continued)

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.

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.

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.

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

### 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 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, was 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 of 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.

## 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 sixty-five percent of the total portfolio in equities.

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

(1) Deposit Balances

| | June 30, 1997 | | |
|---|---|---|---|
| | Cash | Investment in U.S. Treasury Money Market Fund | Total |
| Carrying Amount on Balance Sheet | $7,678 | $25,082,149 | $25,089,827 |
| Bank Balances: | | | |
| a) Insured or collateralized with securities held by the entity or its agent in the entity's name | $400,000 | $25,082,149 | $25,482,149 |
| b) Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name | | | |
| c) Uncollateralized, including any securities held for the entity but not in the entity's name | 310,119 | | 310,119 |
| Total bank balance | 710,119 | 25,082,149 | 25,792,268 |

All of the amounts in (c) above were uncollateralized securities as of June 30, 1997.

| | June 30, 1996 | | |
|---|---|---|---|
| | Cash | Investment in U.S. Treasury Money Market Fund | Total |
| Carrying Amount on Balance Sheet | $49,592 | $9,948,357 | $9,997,949 |
| Bank Balances: | | | |
| a) Insured or collateralized with securities held by the entity or its agent in the entity's name | 540,000 | 9,948,357 | 10,488,357 |
| b) Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name | | | |
| c) Uncollateralized, including any securities held for the entity but not in the entity's name | 690,035 | | 690,035 |
| Total bank balance | 1,230,035 | 9,948,357 | 11,178,392 |

All of the amounts in (c) above were uncollateralized securities as of 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.

| | Investments as of June 30, 1997 | | | |
|---|---|---|---|---|
| | Category of Risk | | | Total Carrying Amount |
| Type of Investment | 1 | 2 | 3 | at Fair Value |
| U. S. Government obligations | $7,576,048 | | | $7,576,048 |
| U. S. Government agency obligations | 22,709,517 | | | 22,709,517 |
| Common stocks - domestic | 69,386,631 | | | 69,386,631 |
| Common stocks - foreign | 13,449,133 | | | 13,449,133 |
| Bonds - domestic | 33,301,072 | | | 33,301,072 |
| Bonds - foreign | 626,938 | | | 626,938 |
| | 147,049,339 | | | 147,049,339 |

| | Investments as of June 30, 1996 | | | |
|---|---|---|---|---|
| | Category of Risk | | | Total Carrying Amount |
| Type of Investment | 1 | 2 | 3 | at Fair Value |
| U. S. Government obligations | $21,029,462 | | | $21,029,462 |
| U. S. Government agency obligations | 17,993,492 | | | 17,993,492 |
| Common stocks - domestic | 60,488,510 | | | 60,488,510 |
| Common stocks - foreign | 5,710,857 | | | 5,710,857 |
| Bonds - domestic | 8,112,750 | | | 8,112,750 |
| | 113,335,071 | | | 113,335,071 |

## Note 5-Compensation of Board Members

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

## 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 expenses for the years ended June 30, 1997 and June 30, 1996 are $28,391 and $14,195. The minimum lease payments for the next five years are as follows:

| | |
|---|---|
| 1998 | 28,391 |
| 1999 | 28,391 |
| 2000 | 14,195 |
| | 70,977 |

## 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)

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 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 | 18,768 | 119.4% |
| 1997 | 17,948 | 123.7% |

# 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) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a/c) |
|---|---|---|---|---|---|---|
| 1988 | $8,754 | $195,144 | $186,390 | 4.7% | $16,452 | 1132.9% |
| 1989 | 4,211 | 197,269 | 193,057 | 2.1% | 16,300 | 1184.4% |
| 1990 | 17,136 | 209,390 | 192,253 | 8.2% | 18,890 | 1017.8% |
| 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% |
| 1997 | 128,914 | 293,295 | 164,381 | 43.9% | 27,780 | 591.7% |

## 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, 1997 follows:

| | |
|---|---|
| Valuation date | June 30, 1997 |
| 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, 1997 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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RETIRED

September 20, 1997

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

Board of Trustees
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**
**Baton Rouge, Louisiana**

as of and for the year ended June 30, 1997, and have issued our report thereon dated September 20, 1997. 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 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 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 the following instance of noncompliance that is required to be reported under Government Auditing Standards.

As indicated in Note 4 to the financial statements, the System has bank deposit balances which are uncollateralized. Louisiana state law requires the System have adequate collateral.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 assurance on the internal control over financial reporting. 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 material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report in intended for the 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. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP