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LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM  
COMPONENT UNIT FINANCIAL REPORT  
JUNE 30, 1995

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the public, 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, 1995



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## Postlethwaite & Netterville

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### INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Louisiana State Employees' Retirement System  
Baton Rouge, Louisiana

We have audited the accompanying statements of plan net assets of the Louisiana State Employees' Retirement System (LASERS), a component unit of the State of Louisiana, as of June 30, 1996 and 1995, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of LASERS' 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 *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 financial statements referred to above present fairly, in all material respects, the financial position of LASERS as of June 30, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in the year ended June 30, 1996, LASERS adopted Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information and supporting schedules listed in the foregoing table of contents, which are also the responsibility of the management of LASERS, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. We have not audited the financial statements of LASERS for any period prior to the year ended June 30, 1993. Accordingly, we do not express an opinion on any other items of assertion on any supplementary information prior to June 30, 1993.

In accordance with Government Auditing Standards, we have also issued a report dated September 17, 1996, on our consideration of LASERCO internal control structure and a report dated September 17, 1996, on its compliance with laws and regulations.

*Paul J. Schmitt, Jr., CPA*

Baton Rouge, Louisiana  
September 13, 1996



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### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Board of Trustees of the  
Louisiana State Employees' Retirement System  
Baton Rouge, Louisiana

We have audited the component unit financial statements of Louisiana State Employees' Retirement System (LASERS) as of and for the year ended June 30, 1996, and have issued our report thereon dated September 17, 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Compliance with laws, regulations, and contracts applicable to Louisiana State Employees' Retirement System is the responsibility of Louisiana State Employees' Retirement System management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of LASERS' 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

*Pwstlethwaite & Netterville*

Baton Rouge, Louisiana  
September 17, 1996



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### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

To the Board of Trustees of the  
Louisiana State Employees' Retirement System  
Baton Rouge, Louisiana

We have audited the component unit financial statements of Louisiana State Employees' Retirement System, as of and for the year ended June 30, 1996, and have issued our report thereon dated September 17, 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.

The management of Louisiana State Employees' 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 recorded in accordance with management's authorization and recorded properly to permit the preparation of 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, projections 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 Louisiana State Employees' 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 of risk that errors or 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 the Board of Trustees, management, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

*Paul H. Overstreet, Matthew G. Co*

Baton Rouge, Louisiana  
September 17, 1996

## LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS  
JUNE 30, 1996 AND 1995

	1996	1995 (Revised)
<b>ASSETS</b>		
Cash and short-term investments	\$ 207,832,838	\$ 248,958,933
<b>Receivables</b>		
Employer contributions	14,480,317	14,735,452
Employee contributions	9,091,889	9,318,088
Interest and dividends	27,676,780	37,457,093
Pending transactions	868,243,632	478,098,032
Total receivables	1,820,834,618	1,039,758,755
<b>Investments, at fair value:</b>		
U.S. Government obligations	951,815,988	878,034,281
Bonds	1,846,137,100	938,584,293
Stocks		
Domestic	1,152,367,147	976,733,589
International	662,705,368	681,739,118
Real estate	30,844,959	69,248,468
Preferred stocks	-	4,923,438
Trustee capital	61,600,821	68,793,813
Total investments	3,804,982,013	3,288,537,295
<b>Property and equipment:</b>		
Land	889,815	889,815
Building and improvements	4,740,829	4,711,946
Equipment	6,642,320	4,223,837
	10,115,959	9,825,679
Accumulated depreciation	( 6,149,165)	( 7,589,243)
Total fixed assets	8,094,694	6,738,435
Other assets	787,806	1,834,865
<b>TOTAL ASSETS</b>	<b>5,218,168,951</b>	<b>4,177,639,290</b>
<b>LIABILITIES</b>		
Accounts payable - pending transactions	868,243,632	868,243,632
Accounts payable and other account liabilities	5,482,139	6,299,265
<b>TOTAL LIABILITIES</b>	<b>873,725,771</b>	<b>874,542,897</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b> (A schedule of funding progress is presented on page 12)	<b>\$ 4,344,443,180</b>	<b>\$ 3,303,096,393</b>

The accompanying notes are an integral part of these statements.





## LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN NET PLAN ASSETS  
FOR THE YEARS ENDED JUNE 30, 1996 AND 1995

	1996	1995 (Revised)
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 197,455,876	\$ 191,648,807
Employee	128,873,816	121,378,858
Total contributions	<u>326,329,692</u>	<u>313,027,665</u>
Investment Income:		
Net appreciation (depreciation) in fair value of investments	568,939,866	551,728,873
Interest	106,777,990	124,252,818
Dividends	28,432,965	20,322,892
Other	3,649,532	3,744,328
Less investment expenses	<u>12,318,452</u>	<u>9,006,271</u>
Net investment income	<u>694,481,801</u>	<u>781,042,838</u>
Other Income:		
Legislative appropriations	3,365,965	3,604,779
Transfers from other systems	1,000,591	156,889
Purchase of service and repayment of benefits	1,494,135	1,091,609
Interest on prior service, delinquent contributions, settlements, and other	<u>31,117,024</u>	<u>20,696,647</u>
Total additions	<u>966,348,217</u>	<u>917,680,199</u>
<b>DEDUCTIONS</b>		
Benefits	317,348,515	288,641,876
Refunds of contributions	27,222,153	25,001,790
Administrative expenses	4,998,888	4,749,662
Other	<u>2,667,845</u>	<u>1,724,818</u>
Total deductions	<u>352,237,399</u>	<u>319,118,146</u>
<b>NET INCREASE</b>	<b>555,510,818</b>	<b>591,620,566</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	<u>1,738,807,348</u>	<u>1,786,386,758</u>
End of year	<b><u>2,294,318,166</u></b>	<b><u>2,378,007,324</u></b>

The accompanying notes are an integral part of these statements.

# LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

### 1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

#### A. Organization

##### General

The Louisiana State Employees' Retirement System ("LASERS" or the "System") is the administrator of a single-employer defined benefit pension 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 11 Chapter 481 of the Louisiana Revised Statutes (R.S.).

The Louisiana State Employees' Retirement System adopted Statement No. 25 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Defined Benefit Pension Plans and Net Disbursements for Defined Contribution Plans*, for the fiscal year ended June 30, 1996, as required. Statement No. 25 requires a change in the financial statement format. Under Statement No. 25 the two required statements are the statement of plan net assets and the statement of changes in plan net assets. Statement No. 25 also requires plan investments to be recorded at their fair value.

In June 1991, the Governmental Accounting Standards Board 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 either they are able to impose their will on that organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the System. The System also determined whether there are organizations that are financially dependent on it. It was determined that there are no component units of the System.

##### Plan Membership

A summary of government employers participating in LASERS at June 30, 1996, follows:

Type of Employer	Number of Employees	
	1996	1995
State Agencies	127	136
Municipalities	40	40
Courts	39	39
State Hospitals	18	18
Police Agencies	22	22
Colleges and Universities	18	18
Other	60	60
	<u>244</u>	<u>256</u>

**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION** (continued)

**A. Organization** (continued)

At June 30, 1996 and 1995, membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits	27,828	26,224
Deferred retirement option plan participants	2,329	1,453
Terminated vested employees not yet receiving benefits	1,802	1,537
Terminated nonvested employees who have not withdrawn contributions	20,768	20,783
Current active employees:		
Vested	1,838	1,528
Nonvested	67,842	64,180
	<u>121,798</u>	<u>118,685</u>

**Eligibility Requirements**

All state employees except certain classes of employees specifically excluded by statute become members of the System as a condition of employment unless they elect to continue as a contributing member in any other retirement system for which they remain eligible for membership. Certain elected officials and officials appointed by the governor may, at their option, become members of LASERS.

**Retirement Benefits**

The age and years of creditable service required in order for a member to retire with full benefits are established by statute and vary depending on the member's employer and job classification. The substantial majority of members may retire with full benefits at ages ranging from any age upon completing thirty years of creditable service, to age thirty upon completing ten years of creditable service. Effective January 1, 1996, members may elect to retire with 20 years of service at any age, with an actuarial reduced benefit.

The basic annual retirement benefit for substantially all members is equal to 2.10% of average compensation multiplied by the number of years of creditable service plus \$308. Participants who became members of LASERS on or after July 1, 1988, are not eligible for the \$380 addition to the annual retirement benefit formula. Average compensation is defined as the member's average annual earned compensation for the highest thirty-six consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or certain specified dollar amounts of actuarially determined monetary limits which vary depending upon the member's age at retirement. Judges, court officers, and certain elected officials receive an additional annual retirement benefit equal to 1% of average compensation multiplied by the number of years of creditable service in their respective capacity. As an alternative to the above basic retirement benefit, a member may elect to receive his retirement benefits under any one of three different options providing for a reduced retirement benefit payable throughout his life with certain benefits being paid to his designated beneficiary after his death.



## LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### 1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

##### A. Organization (continued)

A member leaving employment before attaining minimum retirement age but after completing certain minimum service requirements becomes eligible for a benefit provided the member lives to the minimum service retirement age and does not withdraw his accumulated contributions. The minimum service requirements for benefits vary depending upon the member's employer and service classification.

##### Deferred Benefits

Effective January 1, 1991, the state legislature authorized the Louisiana State Employees' Retirement System to establish a Deferred Retirement Option Plan (DROOP). When a member enters DROOP, his status changes from active member to retiree even though he continues to work at his regular job and draws his regular salary for a period of up to three years. During the DROOP participation period, the retiree's retirement benefits are paid into a special account. The amount is investable once participation begins, invested at a rate of one-half percent less than the system's realized return on its portfolio will be credited after participation ends. At that time, the member must choose among available alternatives for the distribution of benefits which have accumulated in the DROOP account. The DROOP program was designed to have no actuarial effect on LASERS' unfunded liability. The number of participating employees is currently 106. Current membership in the DROOP program is 2,020 members.

Effective January 1, 1996, members eligible to retire and who do not choose to participate in DROOP may elect to receive at the time of retirement up to 36 months of benefits, with an actuarial reduction of their future benefits.

##### Retirement Incentive Legislation

On July 6, 1985, legislation was enacted allowing members who, on September 1, 1985, had earned sufficient service credit to be eligible for a normal retirement on or before August 31, 1995, but had not attained the normal retirement age, to be eligible for an early retirement. This eligibility for an early retirement is available to the System's members for the ten year period ending August 31, 1995, and, in accordance with the statute, reduces the member's benefits to a level which is actuarially equivalent to the retirement benefit at the normal retirement age using the normal retirement formula.

##### Disability Benefits

Substantially all members with ten or more years credited service who become disabled receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age.

## LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### I. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

##### A. Organization (continued)

###### Survivor's Benefits

Certain eligible surviving dependents receive benefits based on the deceased member's compensation and their relationship to the decedent. The deceased member who was in state service at the time of death must have a minimum of five years of service credit, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service credit regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age eighteen, or age twenty-three if the child remains a student. The above minimum service-credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to a spouse or qualified handicapped child.

###### Supplemental Benefit Adjustments

Current Statutes allow the Board of Trustees to make annual supplemental cost-of-living adjustments each year only when the actuary for the System and the State Legislative Auditor certify that LASERS is systematically approaching actuarial soundness and if such cost-of-living adjustments are not enacted by the legislature. The cost-of-living adjustments may not exceed more than three percent in any year. These adjustments are computed on the base retirement or survivors' benefit. Benefit increases have occurred under the above Statute in various years since 1970 and have been limited to the three percent amount. In addition, several other cost-of-living adjustments or supplemental benefit payments have occurred in the past as a result of legislation, some being paid from investment income and others being paid from funds appropriated by the state legislature. The last cost-of-living adjustment from this source was granted on September 1, 1991.

At June 30, 1992, new legislation was passed which established a funding mechanism for future cost-of-living adjustments for retirees. An Employee Experience Account was created to set aside a portion of net experience gain as determined by LASERS' actuary. Funds accrue in the account until such time there are sufficient amounts to grant a cost-of-living adjustment. At June 30, 1993, the balance in this account was \$61,772,908, of which \$26,740,857, was used to fund a cost-of-living adjustment approved by the board of trustees and the legislature in April 1996, payable July 1, 1996. At June 30, 1996, the balance in the account was increased to \$84,818,898.

##### B. Member Contributions

Member contribution rates for the System are established by Louisiana Revised Statute 11:52. Employee member contributions are deducted from their salary and remitted to the System by participating employers. The rates in effect during the years ended June 30, 1998 and 1995, for the various types of employee members are as follows:

**LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION** (continued)

**B. Member Contributions** (continued)

Type	% of Earned Compensation	
	1996	1995
Judges, court officers and legislators, the Governor and Lt. Governor	11.5%	11.5%
Clerk of the House of Representatives and Secretary of the Senate	9.5%	9.5%
Certain Department of Corrections employees	9.0%	9.0%
Certain Department of Wildlife and Fisheries employees	8.5%	8.5%
All others	7.5%	7.5%

An employee savings account is established for member contributions less amounts transferred to reserves for retirement and amounts refunded to terminated members. If a member leaves covered employment or dies before any benefits become payable on his behalf, the accumulated contributions may be refunded to the member or his designated beneficiary. Similarly, accumulated contributions in excess of any benefits paid to a member or his survivors are refunded to the member's beneficiary or his estate upon cessation of any survivor's benefits.

**C. Employer Contributions**

Each employer is required to contribute a percentage of each employee's earned compensation to finance participation of its employees in LASERS. The employer's contribution rate is established under Louisiana Revised Statutes 11:302-11:304 and annually by the Actuarial Pricing Committee as shown below for the years ended June 30, 1996 and 1995.

% of Earned Compensation	
1996	1995
12.0%	11.0%

## LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

## 1. PLAN DESCRIPTION AND CONTRIBUTIONS INFORMATION (continued)

## C. Employer Contributions (continued)

The State's pension cost and net pension obligation to LANSERS for the current year is as follows:

Annual required contribution	\$ 313,800,332
Interest on net pension obligation	( 669,334)
Adjustment to annual required contribution	<u>3,240,252</u>
Annual pension cost	314,571,995
Contributions made	( 210,499,852)
Increase (decrease) in net pension obligation	4,076,523
Net pension obligation beginning of year	( 8,113,303)
Net pension obligation end of year	<u>( 4,036,780)</u>

## Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/94	\$ 191,589,377	97.6%	( 3,254,900)
6/30/95	198,311,489	182.7	( 8,113,303)
6/30/96	308,878,086	97.8	( 4,036,782)

## D. Transfer of Service

Any Louisiana public retirement or pension system member who has six months of creditable service and who has membership credit in any other such system has the option of transferring all of this credit to his current system. The transferring system is required to transfer to his current system the greater of all employee and employer contributions plus interest compounded annually at the board approved actuarial valuation rate of the transferring system or the actuarial liability. In the event that the contributions transferred are less than the contributions which would have been made had the service been in his current system, the member has the option of either paying the difference plus interest or having his credited service decreased based upon the amount of contributions transferred.

## LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Basis of Accounting

LASERS' financial statements are prepared using the accrual basis of accounting. Interest income is recognized when earned and dividend income is recognized when earned. Investment purchases and sales are recorded as of their trade date. Gains and losses on security transactions are recognized when the securities are sold. State fund appropriations for supplemental benefits are recognized when drawn from the State Treasury. Employer and employee contributions are recorded in the period the related salaries are earned. Administrative expenses are funded exclusively from investment earnings and are subject to temporary control of the Board of Trustees. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

##### B. Method Used to Value Investments

As required by GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Net Disbursements for Defined Contribution Plans*, investments are reported at fair value. Short-term investments are reported at market value when published prices are available, or 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. Corporate bonds are valued based on yields currently available on comparable securities from issuers of similar credit ratings. Mortgage securities are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Besides investments in the U.S. Government and U.S. Government obligations, the Plan had no investment in any one organization which represented more than 5% of the net assets available for benefits.

##### C. Derivatives

LASERS invests in various mortgage-backed securities such as interest-only strips and principal-only strips.

LASERS invested in interest-only strips during 1996 and 1995, in part to maximize yields and in part to hedge against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagors, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby pre-paying the mortgage underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Conversely, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the investment would be higher than anticipated.

LASERS invested in principal-only strips during 1996 and 1995, in part to maximize yields and in part to hedge against a decline in interest rates. These securities are based on cash flows from principal payments on underlying mortgages. Therefore, they are sensitive to a rise in interest rates which cause the collective



## LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### C. Derivatives (continued)

of principal payments to be extended longer than anticipated. Conversely, if interest rates decline and borrowers refinance mortgages, thereby pre-paying the mortgages underlying these securities, the cash flows would be higher than anticipated.

LASERS enters into contractual commitments involving financial instruments with off-balance-sheet risk. These financial instruments include forward contracts, futures contracts and options contracts and were entered into in part to maximize yields and in part to hedge against a rise in interest rates.

Forward and futures contracts are for the delayed delivery of securities and/or currencies in which the seller agrees to make delivery at a specified future date at a specified price or yield for cash. Risks arise from the possible inability of counterparties to meet the terms of contracts and from movements in market values and interest rates.

Options are contracts that allow the holder to purchase or sell financial instruments for cash at a specified price at or within a specified period of time. Options bear the risk of an unfavorable change in the price of financial instruments underlying the option and the risk that a counterparty is unable to perform in accordance with the terms of the option.

##### D. Property and Equipment

Land, building, equipment, and furniture are carried at historical cost. Depreciation is computed using the straight-line method based upon useful lives of 40 years for building and 3 to 15 years for equipment and furniture.

LASERS is a 50% co-owner of the Louisiana Retirement Systems building and related land with Teachers' Retirement System of Louisiana and has the following leases with organizations that are included within the State of Louisiana as reporting entities:

Municipal Police Employees' Retirement System of Louisiana  
Municipal Fire and Police Civil Service  
Ethics Commission

##### E. Compensated Absence

The System pays a lump sum amount for a maximum of 360 hours of accrued personal leave upon termination of employment. Accumulated personal leave (including benefits) of employees directly related to the administration of the System is accrued in the financial statements when earned.

## LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### F. Change in Accounting Principle

In November 1994, GASB issued Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. This Statement establishes 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 should be reported as a restatement of the "Net assets held in trust for pension benefits - beginning of year" for the earliest period restated. The first assets held in trust for pension benefits - beginning of year for Fiscal Year 1993, which was \$3,246,471,163, has been restated at \$3,286,546,704, in order to reflect application of GASB Statement No. 25.

Certain reclassifications have been applied to the 1995 financial information to conform to the 1996 presentation.

##### A. DEPOSITS

At June 30, 1996, the carrying amount of LASERS' cash deposits held in trust and at banks totaled \$16,796,083, and the bank and trust balance was \$17,665,827. At June 30, 1995, the carrying amount of LASERS' cash deposits held in trust and at banks totaled \$4,251,287, and the bank and trust balance was \$5,535,489. The balances held at the bank are collateralized by government securities in the System's name and Federal Deposit Insurance Corporation (FDIC). Cash deposits held in trust with custodians are covered by Federal deposit insurance (FDIC) on an individual (retiree and member) level.

##### B. INVESTMENTS

The investment powers of LASERS are authorized by State Statute. Title 11, Section 717 of the Louisiana Revised Statutes states that the prudent man rule shall apply to all investments of LASERS. This law specifically requires management of LASERS to exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence exercises in the management of large investments entrusted to it and in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income. The revised statute also prohibits the system from investing more than 55% of its total portfolio in common stock. In addition, the Board of Trustees of LASERS has adopted certain investment policies, objectives, rules, and guidelines which are intended to protect and preserve LASERS' assets while providing an appropriate return for participants. LASERS' assets are divided among investment managers who were given a policy statement which established a real rate of return of at least 4% per annum in excess of the rate of inflation as measured by the consumer price index. The following summarizes the types of permissible investments under each objective, rules and guidelines as of June 30, 1996:

##### A. Domestic Equity Securities

1. Domestic equity purchases are limited to common stocks traded over the counter or on a domestic stock exchange. Exceptions shall be approved by the Board in advance.

## LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### A. INVESTMENTS (continued)

- No one holding shall account for more than 6% of the allowable equity portion of the portfolio at market value or more than 5% of the outstanding common stock of any one corporation.
- The purchase of stocks or convertibles in foreign companies through American Depositary Receipts (ADR's), which are dollar denominated foreign securities traded on the domestic U.S. stock exchanges may be held by each domestic stock manager in proportions which each manager shall deem appropriate.
- Convertible bonds, convertible preferred stocks, warrants and rights may be purchased as equity substitutes so long as the common stocks underlying them meet required equity standards above.
- Equity securities, including domestic and international common stocks, are limited to 35% of the total assets of the System on a market basis.

#### B. Domestic Fixed Securities

- Domestic fixed income investments may include U.S. Government and Federal Agency obligations, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage backed securities and other instruments deemed prudent by the investment managers.
- No more than 5% of the market value of LASERS' domestic fixed income assets may be invested in the debt securities of any one issuer. None of the above limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies as defined in the most current issue of Moody's Bond Record.

#### C. International Investments

- As part of its normal asset allocation for equity and fixed income securities, the System may invest a portion of its equity and fixed income allocation in international securities. International investments shall only be entered into through the selection of a qualified investment management organization as consistent with fiduciary responsibilities. An international manager employing an active currency management program may, upon specific authorization of the Board, deal in futures and options within the discipline of that currency management program.

#### 2. Limitations

##### a. International Equity:

No one holding in an international equity portfolio shall account for more than 6% of the portfolio at market value or more than 5% of the outstanding common stock of any one corporation.

##### b. Global Bonds:

The global bond portfolio may hold no more than 30% of its assets, at market value, in the debt securities of any single foreign government or government entity. No single non-government debt security shall constitute more than 5% of the global bond portfolio, at market value.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS (continued)

D. Cash Equivalents

1. Short-term funds may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements which are fully collateralized by U.S. Treasury issues. Unless expressly prohibited by the Board, excess cash may be invested in the Short-Term Investment Fund of the Custodian Bank or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board.
2. Funds may be invested in commercial paper subject to the following guidelines:
  - a. Only U.S. Dollar Denominated paper of domestic companies will be used.
  - b. Paper must be rated P-1 by Moody's or A-1 by Standard and Poor's, but no lower by either. Prior approval shall be required for use of paper rated P-2 by Moody's or A-2 by Standard and Poor's.
  - c. No more than \$10 million is to be invested in commercial paper of any one issuer.
  - d. The maximum maturity for commercial paper purchased with the cash reserves of any investment advisor shall be established by each advisor. However, under no circumstances will commercial paper having a maturity of longer than 270 days be purchased without prior Board approval.

E. Real Estate

Investments in real estate shall be limited to an initial investment value at market value of not more than 2% of total fund assets. Real estate investments are limited to:

1. A direct investment in the property located at the intersection of Essen Lane and United Plaza Boulevard in Baton Rouge, Louisiana.
2. Investments in commingled real estate pools (both open and closed end) or real estate investment trusts (REITs).
3. Separately managed accounts.

The Board specifically authorizes the purchase of real estate related debt securities as a portion of the debt securities portfolio, to include securities issued by FVMA, FHLMC, and GVMA. Purchases other than those guaranteed by federal agencies cited above must be rated AAA by Standard and Poor's or AAA by Moody's. Reserves for future real estate investments may be held in large capitalization U. S. equities, subject to the 25% limit on all equity investments.

## LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS

#### 4. INVESTMENTS (continued)

##### F. Options

The system may employ an options management service with objective of providing volatility protection on equity investments and an enhanced rate of return over time.

##### G. Private Capital Market Investments

Investments in Private Capital Market Investments shall be limited to an initial investment value at market value of no more than 4% of total fund assets. Reserves for future Private Capital Market Investments may be held in large capitalization U. S. equities, subject to the 55% limit on all equity investments.

##### H. Other

Any type of investment other than detailed previously shall be made only after specific guidelines are established by the Board of Trustees.

All investments of the System are registered in the System's name, or held by the custodial bank or its intermediaries in the System's name. The System's investments at June 30, 1996 and 1995, are categorized on the following page to give an indication of the level of risk assumed by the entity. Category 1 includes investments that are listed or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes unlisted and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes unlisted and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the System's name. The categorization for the investments held at June 30, 1995, was the same as that shown on the following page for investments held at June 30, 1996.

In the year ended June 30, 1995, the System exchanged its units in a domestic technology fund for their portion of the individual securities within the fund. In accordance with Accounting Principles Board No. 29, the System recorded the exchange at fair value and this resulted in a gain of approximately \$68,575,800.

## LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

## 4. INVESTMENTS (continued)

	Category			Carrying Amount (Fair Value) 6/30/96	Carrying Amount (Fair Value) 6/30/95
	1	2	3		
Corporate Bonds	\$ 292,714,793	-	-	\$ 292,714,793	\$ 212,698,487
Treasury Bonds	26,870,844	-	-	26,870,844	112,860,955
Government Agency Bonds	499,429,142	-	-	499,429,142	354,233,832
International Bonds	432,349,796	-	-	432,349,796	443,241,735
Treasury Notes	426,686,515	-	-	426,686,515	374,398,424
Domestic Common Stocks	1,152,365,247	-	-	1,152,365,247	976,322,565
International Common Stocks	682,709,268	-	-	682,709,268	433,729,118
Preferred Stocks	-	-	-	-	4,322,438
Total categorized	<u>\$ 3,833,125,685</u>			3,833,125,685	3,162,995,514
Real Estate Pools				70,644,998	69,248,468
Venture Capital				81,020,821	68,795,813
Total Investments				<u>\$ 3,984,791,504</u>	<u>\$ 3,299,040,795</u>

The System is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that LASERS loan specific securities from its holdings to the broker to ensure the collateral equal to at least 102 percent of the market value of the securities on loan. Securities under loan are maintained on the System's financial records and are classified in the preceding category of investment risk. As the System does not have the ability to trade or sell the collateral received in the securities lending program, such collateral is not considered an asset of the System and a corresponding liability is not reported on the statement of net plan assets.

Real estate investment pools consist of eight separate investments in commingled funds which develop and own commercial real estate in various metropolitan areas of the U.S. Income from these investments will consist of appreciation in market values of the underlying properties and lease income and capital gains.

The System has no investments of any single organization (other than those insured or guaranteed by the U. S. Government) that represents five percent or more of the System's net plan assets, nor does the System hold more than five percent of any corporation's stock.

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

NOTE TO FINANCIAL STATEMENTS

4. INVESTMENTS (continued)

During fiscal years 1996 and 1995, the System's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value by \$358,939,866 and \$311,725,025, respectively. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments, and unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year(s) and the current year.

	<u>1996</u>	<u>1995</u>
Increase (decrease) in fair value of investments	\$ 191,527,471	\$ 158,789,764
Realized gains (losses) on investments sold	<u>169,432,199</u>	<u>152,935,211</u>
	<u>\$ 360,959,670</u>	<u>\$ 311,725,025</u>

5. REQUIRED SUPPLEMENTARY INFORMATION

In accordance with GASB No. 25, required supplementary information can be found in the attached schedules.

REQUIRED SUPPLEMENTARY INFORMATION



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULES OF FUNDING PROGRESS  
FOR THE SIX YEARS ENDED JUNE 30, 1996  
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (\$)	Actuarial Assumed Liability (AAL) (\$)	Unfunded AAL (AAL) (\$)	Pending Rate (\$%)	Covered Payroll (\$)	AAL as a Percentage of Covered Payroll (%)
6/30/91	\$ 1,516,742	\$ 4,499,332	\$ 1,982,578	55.9%	\$1,368,488	146.9%
6/30/92	1,802,667	4,884,589	2,081,922	57.4%	1,494,371	145.1%
6/30/93	1,844,737	5,323,400	2,078,663	58.4%	1,584,147	138.2%
6/30/94	1,347,602	5,468,384	2,055,792	61.9%	1,546,465	132.9%
6/30/95	1,668,865	5,696,989	2,031,048	64.3%	1,547,977	131.2%
6/30/96	4,114,461	6,254,485	2,139,944	65.8%	1,584,357	135.1%

**SCHEDULES OF EMPLOYER CONTRIBUTIONS  
FOR THE SIX YEARS ENDED JUNE 30, 1996**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1991	\$ 186,187,879	101.2%
1992	188,187,313	103.5%
1993	183,587,318	98.5%
1994	189,588,958	98.7%
1995	195,931,088	103.5%
1996	203,763,677	99.3%

**LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM**  
**ACTUARIAL METHODS AND ASSUMPTIONS**  
**JUNE 30, 1999**

The information presented in the accepted supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 1999
Actuarial cost method	Projected unit credit
Amortization method	Increasing annuity
Remaining amortization period	10 years
Asset valuation method	4-year average market value
Actuarial assumptions:	
Investment rate of return	8.25% per annum*
Mortality	Mortality rates were projected based on the 1990 Sex Distinct Graduated Group Annuity Mortality Table with females set at attained age plus one.
Termination, disability and retirement	Termination, disability, and retirement assumptions were projected based on a five year (1991-1996) experience study of the System's members.
Salary increases	Salary increases which range between 4.25% and 11.75% were projected based on a five year (1991-96) experience study of the System's members.*
Cost-of-living adjustments	None.

\*Includes inflation at 3.00%.

SUPPORTING SCHEDULES

LOUISIANA STATE EMPLOYEE RETIREMENT SYSTEM

SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE FOR THE FIVE YEARS ENDED JUNE 30, 1998

MEMBERSHIP SOURCE

Fiscal Year	(1) Employee Contributions			Investment Income	Other Income	Total	(2) Annual Current Payroll		Percentage of Total
	Member Contributions	Employee Contributions	Total				Total	Percent	
1997	\$ 82,883,276	\$ 14,188,221	\$ 154,495,428	\$ 4,884,824	\$ 164,269,527	\$ 1,091,971,428	15.2		
1998	81,197,261	12,492,059	161,208,087	1,266,473	162,474,560	1,111,961,266	14.6		
1999	81,283,566	11,090,129	192,123,015	1,062,178	193,185,693	1,141,060,541	16.9		
2000	91,252,872	9,524,457	205,976,669	6,294,071	212,270,940	1,156,963,067	18.3		
2001	102,466,134	14,251,549	226,893,411	8,441,041	235,334,581	1,164,475,514	20.2		
2002	98,579,451	16,071,699	227,966,124	6,143,484	234,180,308	1,181,276,914	19.8		
2003	114,481,559	17,422,624	128,734,268	9,449,417	147,604,269	1,404,172,448	10.5		
2004	116,383,267	18,658,648	274,473,461	4,650,129	293,132,499	1,464,644,423	11.8		
2005	121,375,248	19,148,927	490,641,694	23,449,139	513,964,378	1,650,171,001	11.9		
2006	124,973,414	19,484,879	556,813,589	30,813,139	587,687,566	1,941,290,841	12.9		

EXPENSES BY TYPE

Fiscal Year	Benefits	Retiree Benefits	Administration	Investments	Other	Total
1997	\$ 561,677,476	\$ 24,784,754	\$ 1,482,036	\$ 443,698	\$ -	\$ 588,988,964
1998	521,651,482	24,782,148	1,894,259	493,698	-	548,921,587
1999	524,603,263	24,444,201	2,200,429	503,261	-	549,751,154
2000	524,066,839	24,885,096	2,371,879	971,748	-	549,935,562
2001	506,621,276	22,871,179	2,095,499	1,861,982	-	531,450,736
2002	484,255,452	21,895,071	2,081,468	4,163,073	526,488	513,821,552
2003	491,485,729	21,796,524	3,149,176	5,912,768	195,175	522,637,372
2004	491,459,251	21,641,754	4,197,028	8,388,478	604,878	526,271,438
2005	484,641,825	21,627,111	4,718,482	6,686,271	1,726,814	517,400,701
2006	477,460,114	21,222,111	4,293,988	12,128,402	1,267,466	517,372,081

includes a payment from the State Treasury as a result of a settlement of Treasury litigation.

\*\*GAAP (1) was adopted in 1976 and applied retroactively to July 1, 1976. As a result, investment income includes net appreciation/depreciation in the value of investments for 1997 and 1998 which cause significant fluctuations. (Note to 1998) The actuary's report of their investment consulting expenses is a reduction of investment income which differs from the financial statements which reflect such fees as investment expenses.

LOUISIANA STATE EMPLOYEE RETIREMENT SYSTEM

SCHEDULE OF COMPARATIVE AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 1998 AND 1999

FOR THE SCHEDULED JUNE 30, 1998 AND 1999

	1998		1999		Variance Favorable (Unfavorable)
	Actual	Budget	Actual	Budget	
Administrative expenses:					
Salaries and related benefits	\$ 2,281,389	\$ 2,585,247	\$ 83,858	\$ 2,938,384	\$ 208,966
Trend	90,630	218,987	128,277	265,928	168,594
Operating services	1,123,889	2,008,282	883,258	2,267,628	1,400,887
Supplies	177,579	68,680	91,871	137,388	58,480
Professional services	537,489	671,582	434,333	897,589	( 123,747)
Capital expenditures *	481,288	2,255,082	1,781,472	1,541,248	1,898,226
Total budget and actual expenditures	4,864,554	8,209,721	5,393,349	4,869,946	7,970,022
Contribution of capital equity *	( 481,288)	( 2,255,082)	( 1,781,472)	( 1,541,248)	( 1,898,226)
Total administrative expenses	\$ 4,383,266	\$ 5,954,639	\$ 3,611,877	\$ 3,328,698	\$ 1,895,028
Investment expenses	\$ 18,218,423	\$ 14,300,000	\$ 781,241	\$ 12,971,028	\$ 1,895,028

\* Includes \$3,868 and \$1,038 in 1998 and 1999, respectively, of operating service expenses for acquisition for the jointly owned building.

**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULES OF MEETINGS ATTENDED BY AND  
PER DIEM PAID TO BOARD MEMBERS**

**FOR THE YEARS ENDED JUNE 30, 1998 AND 1997**

	1998		1997	
	Number of Meetings	Amount	Number of Meetings	Amount
Cynthia Bridges	12	\$ 908	11	825
Virginia Barton	12	908	11	825
Mary Young Cannon	12	908	12	960
Lella Smith Dufish	12	908	12	960
Betty Harris	6	450	-	-
Frank Johnson, Jr., Chairman	12	908	12	960
Barbara McManus	10	750	12	960
Jean Babin-Michel	6	450	9	675
Louis Quinn	10	750	-	-
Kathy Singleton	6	450	-	-
Cheryl C. Turner	7	525	12	960
<b>Total</b>		<b>\$ 7,875</b>		<b>\$ 6,825</b>

Note - Per Diem was paid for special meetings.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

SCHEDULES OF INVESTMENTS AT AMORTIZED COST

FOR THE YEARS ENDED JUNE 30, 1996 AND 1995

	<u>6/30/96</u>	<u>6/30/95</u>
Corporate Bonds	\$ 587,406,983	\$ 484,472,254
Treasury Bonds	26,911,294	111,467,766
Government Agency Bonds	528,790,254	487,367,545
International Bonds	445,141,249	429,949,496
Treasury Notes	425,154,533	383,977,394
Domestic Common Stocks	821,513,676	839,264,834
International Common Stocks	518,519,282	525,104,728
Preferred Stocks	-	3,248,218
Real Estate Pools	61,323,579	81,379,260
Venture Capital	<u>66,734,687</u>	<u>48,982,512</u>
Total	<u>\$ 3,574,905,985</u>	<u>\$ 3,081,534,277</u>